OVERSIGHT OF ECONOMIC DEVELOPMENT ON INDIAN RESERVATIONS

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BEFORE THE

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UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

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ON

OVERSIGHT CF ECONOMIC DEVELOPMENT ON INDIAN RESERVATIONS

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U.S. SENATE,
SELECT COMMITTEE ON INDIAN AFFAIRS,
Washington, D.C.

The committee met, pursuant to notice, at 9 a.m., in room 5302, Dirksen Senate Office Building, Senator William S. Cohen (chairman) presiding.

Present: Senators Cohen and Andrews.

Staff present: Tim Woodcock, staff director; Peter Taylor, general counsel; Jane Wrenn, staff attorney; John Chaves, staff attorney; Max Richtman, minority staff director; Virginia Boylan, staff attorney; Mike Mahsetky, staff professional; Elisa Jones, staff professional; and Lynn Toledo and Gertrude Wilson, secretaries.

Senator COHEN. Today's hearing is on the economic development of Indian reservations. The weakness of the reservation economies has long been a subject of concern. The undesirable effects arising from this condition, I think, are well known.

The single and perhaps most striking feature of this condition is the great dependency of Indian tribes on the professional and financial assistance from the Federal Government. Although reservation economies have received attention from the Federal Government in the past, these attempts have not always been successful, and a true understanding of the problems that confront Indian tribes can only be reached through an understanding of the legal framework and the disabilities that characterize the field.

First and foremost it must be understood that under the laws of the United States, Indian tribes are separate and distinct units of Government. They are not subdivisions of States or local governments and, as such, Indian tribes, like other units of Government, have the responsibilities to the people who live under their jurisdiction.

Second, although they are governments, Indian tribes lack many of the traditional revenue-raising devices that other governments rely upon to meet their social obligations. The trust status of Indian lands, for example, prevents them from being offered as collateral for debts.

Additionally, the fractionated condition of some Indian reservations has rendered portions of them economically useless because the consent of a host of interested parties has to be obtained before the lands can be used. Although many proposals for solving this problem have been placed before Congress, it still remains unresolved.

Finally, there is the question of tribal governments themselves. Although in enacting the Indian Reorganization Act of 1934, the Congress expressly departed from the notion that tribal governments were to act as caretakers during the period their people were assimilated in the mainstream and provided that the tribal governments should be fostered, few programs have actually been implemented that have been specifically tailored to strengthen the ability of the tribal governments to govern. In fact, other than the Self-Determination Act programs, the committee knows of no program administered by the Bureau of Indian Affairs that holds this as its goal.

The existence of a reliable tribal government, however, is critical to the development of the reservation. Without that, private sector interests will be reluctant to enter into compacts concerning the communal property of the tribe. Tribal members themselves will lack confidence in their own officers.

The importance of strong tribal governments to economic development was set forth in a recent article in the Wall Street Journal, and in that article Susan Garment wrote that the attempts by the Indian tribes to gain a greater ability to govern themselves and determine their own fates "reminds us that development is the tedious job that remains to be done after the rhetoric of revolution has spent itself. It teaches us once again the lesson given us by observers from Aristotle to Weber, which is that politics precedes economics, and it asks us to recall that it is easy to deprive a people of the ability to govern itself and nearly impossible to rebuild that capacity once it is gone."

About 2 years ago representatives of the American Indian Development Corporation visited the Senate Select Committee on Indian Affairs to advise us that they had begun to develop answers to this very difficult problem. They were mindful of the difficulty of the problems that faced them and they realized it would take time to bring those efforts into some kind of final form. Today the Indian Affairs Committee is going to hear from a broad variety of Indian groups which, taken together, represent an impressively broad spectrum of tribal opinion on the problems and the proposals for economic development, and we look forward with interest to their testimony, but before beginning I would like to yield to my colleague, Mark Andrews, for any comment that he might have.

Senator ANDREWS. Thank you, Mr. Chairman. I am very glad that we are going to hear testimony from our Indian people on economic development. As we all know too well, the economies of many reservations are in bad shape, and this is nothing new. Indian reservations traditionally have been in tough economic shape, with few employment possibilities for the tribal members and a dependency on the Federal Government for most programs and employment, and as we have all seen, the Federal Government has failed to help the tribes establish a solid economic base.

We have searched, during the two decades I have been privileged to be in Congress, for new ways that we can stimulate job opportunities on the reservation, and every time we come up with a new one it seems like a will-o-the-wisp to disappear again because it does not interface with what the tribal people need or it is simply impractical at the beginning.

It is time now to listen to the tribal leaders and Indian economists to find out what really can work out in Indian country, if we are ever going to build a strong economic structure on the reservation. As some of you know, I have worked in the area of Indian affairs with a strong commitment to building up the economic structure on reservations for many years; first as a member of the House Interior Committee and now as a member of the Select Committee on Indian Affairs. That is why this hearing is very important to me and I want to hear some new, fresh, and workable ideas. I am very proud that our chairman, my good friend and colleague, the Senator from Maine, Mr. Cohen, has set these hearings up, because I think they could well spell a new beginning in Indian economic opportunity.

Thank you, Mr. Chairman.

Senator COHEN. Thank you, Senator Andrews.

Our first witness will be Mr. Alan Parker.

Mr. Parker, welcome.

STATEMENT OF ALAN R. PARKER, COUNSEL, KARL A. FUNKE & ASSOCIATES

Mr. PARKER. Thank you, Mr. Chairman and Senator Andrews. I would like to express my appreciation and on behalf of the Indian tribes and organizations represented here today, for your agreement to schedule this hearing on economic development policies and issues. It is my privilege to begin the testimony of Indian witnesses appearing before this committee by providing a brief overview of those economic conditions currently prevailing in Indian country which have prompted the leaders of the major national Indian organizations represented here to request this hearing.

The National Congress of American Indians, the Council of Energy Resource Tribes, and the National Tribal Chairman's Association will be presenting testimony which summarizes a joint Indian position regarding long-term, midrange, and short-range, or immediate objectives and needs.

Taken together, their statements address Indian tribal economic needs and goals on a comprehensive, coherent basis. Their recommendations for legislative, administrative, and tribal initiatives constitute, in our view, an historic first in terms of the formulation of a realistic and achievable economic policy for Indian affairs.

This joint Indian testimony is based on the long-standing positions of Indian tribal leaders, as well as recommendations which have been identified by the Congress, the GAO, and leading experts in the field of Indian economic development, and we are convinced that it effectively outlines the range of strategies and tasks needed to achieve real progress toward the goal of Indian economic self-sufficiency.

Mr. Chairman, there is really no room for debate over the fact that American Indians and Alaskan Natives experience poverty and unemployment to an extent that is unequaled by any other population group in the country, and along with this rate of unemployment and low levels of per capita income come evidences of social distintegration and pathology which is, again, unequaled by any other group in the country.

Now, these findings are really beyond debate. They have been documented by every major study and task force that has addressed the question, and despite the occasional examples of economic progress on one reservation or the other, reservation resident per capita income, unemployment, and other standard of living criteria showed that the gap between the economic conditions of Indians and the non-Indian society has been increasing rather than decreasing in recent year.

For example, in a recent report prepared this past January by the Navajo Nation, entitled, "A Matter of Life," the official BIA unemployment rate for the reservation was estimated to be 75 percent and projected to exceed 80 percent by 1983. In 1979 the Department of Commerce's Bureau of Economic Analysis estimated that rural Indian income per capita was $3,246 a year compared to the U.S. average of $8,773.

Now, although the 1980 census data is not yet available on such items, there is little doubt that it will confirm the presence of an extremely depressed economic condition in Indian country on a nationwide basis. In the face of these conditions it is clear that there are no rich or poor tribes, no small or large tribes, because the suffering and the need that exist in Indian country is the same for all.

These conditions of economic deprivation have been exacerbated by the reductions in Federal assistance over the past several fiscal years. But, the attention that has been focused on these problems as a result of the budget cuts, has had an unintended but, in my view, beneficial effect of shedding light on what are the underlying causes; namely, the level of dependency on Federal assistance programs which has developed in Indian country over the past decade has been brought to light by the recent budget cuts, particularly in such income maintenance and job maintenance areas as CETA programs, HUD, and EDA.

However, as the Navajo Nation report points out, such Federal programs have created and have sustained the basis for the economy on most reservations and the traumatic withdrawal of that kind of assistance has not only undermined the Indian efforts to provide basic government services but it has also undermined their ability to generate the kind of income and jobs that are necessary to develop a self-sustaining economy on the reservation.

Now, finally, the absence of a viable private sector on the reservation has, as you noted in your opening statement, greatly constrained the ability of Indian tribal governments to generate the kind of local tax revenues needed to support essential government services as well as construct the physical plant, roads, sewers, et cetera, the basis upon which it is necessary to build a private sector economy.

In study after study, including GAO studies, the American Indian Policy Review Commission, and hearings before the Senate Interior Committee and Joint Economic Committee, a constant theme has been that there are three fundamental obstacles to economic progress in Indian country. They are: No. 1, the lack of access to development capital and to conventional sources of commercial credit; No. 2, the lack of effective control over natural resource development and management on the part of the Indians themselves; and, No. 3, the lack of an experienced cadre of technicians and managers. Now, the testimony of the Indian organizational witnesses are intended to identify

and recommend strategies which can and should be taken to overcome these fundamental obstacles. I would like to point out that these interrelated problems can be effectively dealt with through a systematic and multifaceted approach and that this approach constitutes the economic policy being recommended on a joint basis by the Indian leaders themselves.

Now, past Federal efforts have been criticized because of inefficiencies in the administration of these grant programs, loan guarantees, interest subsidies; the fact that there has been insufficient funding; the fact that there has been lack of coordination between the different agencies; and all of these studies have documented these inefficiencies and these inadequacies. But, I think that you will find a unanimous position on the part of the Indian tribal leaders that that does not mean that you should simply cut out the Federal programs. In fact, without Federal assistance to provide basic infrastructure to stimulate the development of the private sector economy, to enable Indian tribes themselves to operate governments, that can, in fact, create an environment that is conducive to the development of a private sector economy; without that kind of Federal assistance, it is clear that the Indian tribes themselves will continue to be severely crippled and you will not see progress toward economic self-sufficiency.

Finally, Mr. Chairman, I would like to touch on the question of trust responsibility in Indian economic development. I think that, again, there is a unanimous position and a consensus in the Indian leadership that the basic elements of the trust responsibility should be adhered to and that they are entirely consistent with the economic goals and objectives of the tribes themselves.

All too often we hear the comments along the lines that because Indian land and resources are in trust status and because Indian tribes themselves exercise political sovereignty over their land and natural resource base, that these constitute obstacles or hindrances to economic development. Well, apart from the fact that the alternatives to conventional types of financing have been well documented and have been well established, I think some of those alternatives will be developed in more specific detail, but the testimony of the American Indian National Bank, as an example, despite that fact there continues to be a perception on the part of the non-Indian business community that the trust status of Indian lands and the political sovereignty of Indian tribes constitute significant obstacles to economic development. I think, Mr. Chairman, the record that will be made today will, hopefully, lay that misperception and those stereotypes, to rest.

I think, finally, that the maintenance of the trust responsibility on the part of the Federal Government will serve to protect the tribal status of reservation homelands and that they will provide a distinct Indian nature to the tribal economies that we hope to see develop over the next generation. And, I think at the same time, what we will see is a lessening in the regulatory and bureaucratic nature of the Federal trustee as Indian tribes themselves assert legitimate control over the natural resource management and development.

In closing, Mr. Chairman, I would like, again, to express my thanks to you for your sincere interest in these matters, which are of such vital importance to the Indian tribes and their people. The priority

and urgency which is ascribed to these questions of Indian economic policy by the leaders of the major Indian tribal organizations is attested to by their unprecedented efforts to formulate the joint position to be presented to this committee.

Mr. Chairman, that concludes my statement.

Senator COHEN. Thank you very much, Mr. Parker. Senator Andrews is operating under a serious time constraint today since he has two other meetings, both of which begin at 9:30.

Mr. PARKER. I understand.

Senator COHEN. What I would propose to do is to call the National Congress of American Indians, Joe DeLaCruz, Joe Baca, Robert McLaughlin, and Ted Bryant, as a panel.

Perhaps, Senator Andrews, you might pose some questions even before the opening statement.

That will allow Senator Andrews to raise some of the issues that he would like to have addressed and then you could make a formal statement. So, if those gentlemen would come forward.

For purposes of the record itself, Senator Andrews' questions will follow your presentation, but I do want to let him have the opportunity to ask the questions first and then I will be here to listen to the rest of your presentation.

Senator ANDREWS. Of course, you know, Mr. Chairman, Bob McLaughlin is from our area, and a good friend, and he is a pretty darned competent observer of the economy on Indian reservations and I would like to ask him the first question.

Mr. McLaughlin, during our recent discussion in my office, you referred to banking intermediaries being involved in long-range economic development of the reservations. Could you explain to this committee what you mean by a banking intermediary and its place in the development of a stable economy on the tribal level?

TESTIMONY OF PANEL CONSISTING OF: JOE DeLaCRUZ, PRESIDENT AND CHAIRMAN, QUINAULT INDIAN NATION; JOE BACA, NCAI ECONOMIC DEVELOPMENT COMMITTEE AND MEMBER TEWA AND SANTA CLARA PUEBLO TRIBES; ROBERT McLAUGHLIN, COMMITTEE MEMBER AND SPECIAL ASSISTANT TO THE CHAIRMAN, STANDING ROCK SIOUX INDIAN TRIBE; AND TED BRYANT OF DELOITTE, HASKINS & SELLS, ACCOUNTANTS AND DIRECTOR OF NATIVE AMERICAN PROGRAMS

Mr. MCLAUGHLIN. Yes, Senator. There are two or three reasons why banking intermediation is looming as a very important function for Indian country. The first is that there are really no or very little savings presently being generated locally amongst tribal communities. Effective local financial intermediation, of course, would generate savings and therefore capital investment.

The second reason is that in the past we have been dealing with the Federal Government in terms of a nonbanking relationship and it has lacked the effectiveness and efficiency found with banking intermediation. Bank intermediation would, I think, improve the capacity of tribal governments to develop stable and effective economies through the banking relationship.

The third reason why such intermediation is important is that it would create or begin to create financial markets, we believe, in Indian country. As you know, there is a scarcity of financial institutions present in Indian country.

Senator ANDREWS. The most important concern this committee probably has is one you touched upon very briefly in the second part of your answer, and that is will the tribal governments accept this type of structure?

Mr. MCLAUGHLIN. I think tribal governments will accept this structure because it is a meaningful structure. I think every tribal government in the country has some kind of banking relationship and we have never defaulted in the banking relationships. I have looked across the country to see if any tribe has ever defaulted in a banking relationship and I have not found one yet, but there have been many defaults with Federal Government loans. As you know, such defaults stem, I think, from the abnormal patron-clientism that exists with tribal governments and the Federal Government. But I think banking intermediation will be successful and I think you will see less defaults under that kind of financial structure.

Senator ANDREWS. Mr. Bryant, I would like to address a couple of questions to you as a followup to Mr. DeLaCruz's testimony in our recent visit. You are a representative of the Indian people in the private sector. You know both the Indian tribal structure and the private sector and in this shared knowledge, what role do you anticipate can be played by the private sector?

Mr. BRYANT. Senator, Mr. Chairman, I think there are two areas in which the private sector could play a role. One is expertise in the area of economic development and, obviously, also to bring in capital. As you know, the resources on the reservations that are immediately recognized are in the area of energy, timber, and fisheries, and so forth.

The areas that sometimes we do not recognize so readily are, No. 1, manpower. That is a resource. There is also a great deal of opportunity for tourism, a tremendous opportunity for agricultural development. The problem is that these various possibilities are not necessarily known and understood by the private sector. That is a problem. We have got to get that information to the private sector. Once they know about it, they can bring the needed expertise and, obviously, they can also bring capital.

The private sector involvement is not without some problems. The problems faced by the private sector are, I think, also known by the chairman and by you, Senator. The problems are within tribal management itself, tribal government management. In looking to solutions, one of the things that, as an individual and as a member of the NCAI Economic Development Committee I would like to suggest, is that the Federal Government through the trust relationship has a responsibility. Whether it comes from the Bureau or from ANA, there needs to be assistance made available to the tribes to improve their management capability. I do not mean necessarily in-house assistance coming out to the reservation and providing in-house expertise.

The assistance from the BIA and ANA should be in the form of funding—with direction—to enable the tribes to contract for services in the areas of: financial accounting and reporting systems, personnel systems, administrative policies and procedures, and general manage-

ment improvement. This assistance should provide not only for the design of the systems but, equally important, for the implementation.

Senator COHEN. How do you solve the first problem? In other words you have to deal with the tribal management first and then the banking community takes an interest, the private sector takes an interest in the tribes, or the resources or what?

Mr. BRYANT. I think all these efforts can go along parallel tracks. The development of capital is first and foremost on our minds here. The area of capital development is being well presented by Joe Baca and Joe DeLaCruz and Bob.

Senator COHEN. What is the barrier?

Mr. BRYANT. My particular area of concern is in the area of tribal management and that is the reason I am emphasizing that as a barrier. I think that another problem area is somewhat related to that most tribes do not have a base of law from which to form a business relationship. I am talking about a commercial credit code, a basis for having a business relationship with the private sector. That needs to be developed. The tribes need to have the opportunity to develop that. They need the leadership to develop that. And I think that is something that the Bureau and the other trust agencies can provide assistance with. I do not mean personal assistance. I mean provide some money and direction to get the tribes to get into the position to develop a business relationship with the private sector.

Senator ANDREWS. Well, when you talk about this relationship, what is your observation on programs such as the Small Business Administration's 8(a) program which helps bring private business onto the reservation and brings the tribal government into business? Is this a good program?

Mr. BRYANT. I think it is an excellent program if it were fully implemented. I mean, in other words, it is one of those programs that, in fact, has not been implemented to the extent that it could or should be. And by concept it is excellent. I think there needs to be more dissemination of information concerning the 8(a) program. I do not know if it is a matter of lack of communication between the tribes and the SBA but I think there needs to be a greater implementation.

Senator ANDREWS. Well, that program and programs like it, you feel, would be helpful if properly implemented?

Mr. BRYANT. Yes. Yes, sir.

Senator ANDREWS. Well, Mr. Baca, finally; you are the financial expert on this panel I guess. Do you feel the American Indian Development Corp. referred to by Mr. DeLaCruz will succeed where other financial institutions or, as I believe, the technical jargon refers to them as financial intermediaries, have failed?

Mr. BACA. Senator, Mr. Chairman, Mr. DeLaCruz has not made that presentation yet.

Senator ANDREWS. According to the record he has, though.

Mr. DELACRUZ. I have a different one now.

Mr. BACA. The American Indian Development Corp. has been, for the last 2 years, putting together a model and design for a development finance institution. This institution, we believe, can function in Indian country where others have failed because it is specifically designed to generate, to foster, savings and investment where there are

no institutions or mechanisms that effectively are not available in Indian country to do that now.

It is because of this lack of financial intermediaries in Indian country that we find one of the basic problems to be that Indians can't develop themselves because they do not have the institutions available to them.

The American Indian Development Corp. has spent 2 years designing a specific model that can do that for us and, as I have mentioned, it does function in that kind of a capacity as a financial intermediary. Heretofore, as Mr. Bryant and you have pointed out, there have been nonbanking Federal intermediaries, such as the SBA, the Bureau of Indian Affairs, Farmers Home Administration, and others, and we have seen consistently through various records or studies, that they have been ineffective, because they do not address the fundamental problems that Mr. Alan Parker has pointed out. Those problems are the access to capital, the problems of jurisdiction, and problems of collateral.

The American Indian Development Corp. and its institution which we have labeled the American Indian Development Finance Institution addressed these problems and looks at them like a trust responsibility in the light of collateral and jurisdiction and sovereignty.

Finally the cornerstone, what has also not been done by non-Federal intermediaries, that is, no real proper project selection criteria has been developed, in light of the conditions in Indian country. We have been working very diligently in putting together such project selection criteria which take into consideration management analysis, financial analysis, economic analysis and cost benefit analysis. These things have to be put together in order to select the best of the projects; that they complement the community and that the community is involved in the process and that you blend financial, profit enterprises, and community development together and it can only be done in the context of specific design, development financial institutions.

So, we believe that the American Indian Development Corp. and its new financial institution models does take care of these considerations and these problems. It also is able, we believe, to interface with the private sector from its beginning so that is a marriage between the Federal Government, the Indian people, and the private sector to affect investment opportunities for all people, Indian people, other investors in the private sector, and specifically designed to do so.

Senator ANDREWS. Thank you, Mr. Chairman.

Senator COHEN. Thank you, Senator Andrews. I want the panel and the people in the audience to know that this is a very unusual procedure and I did so at the risk of perhaps resuming the charge against Republicans that we tend to walk forward backward but maybe we will have a shorter presentation as a result of this new, unique, innovative way of proceeding.

Mr. DeLaCruz, go ahead.

STATEMENT OF JOE DeLaCRUZ, PRESIDENT AND CHAIRMAN, QUINAULT INDIAN NATION

Mr. DELACRUZ. Mr. Chairman, I want to thank you and I am sorry Senator Andrews had to leave. Now that you have asked questions on the statement as prepared unassisted by these gentlemen, I have another statement I would like to submit for the record.

It clarifies this issue, at least from my perspective, down to a single issue on our resources and it is a paper that I presented to the National Indian Timber Tribal Symposium on Indian Forests. I would like this to be part of the record. It points out the perspective of the potential that we have within our own communities with that single resource to accomplish some things if we are able to get the proper legislation, as is being discussed today.

Senator COHEN. That will be a part of the record following your testimony.

You may proceed in the fashion that you deem appropriate.

Mr. DELACRUZ. You know the gentlemen who are here with me.

I am going to request, Mr. Chairman, and it has not been one of the habits I have been used to, of really going over a statement as written, but this is such a crucial area I would like the opportunity to do that.

Mr. Chairman and distinguished members of the Senate Select Committee on Indian Affairs, on behalf of the over 400 federally and nonfederally recognized tribes who constitute the National Congress of American Indians, I praise the committee for your foresight in holding these important hearings on economic development issues crucial to the future of all tribal communities.

The National Congress of American Indians will focus this morning's testimony on those issues which are crucial to an economic development strategy over the long run. Although we have limited our comments to generally one factor of production, capital, we are aware of the importance of other factors of production such as land, labor, materials, and markets, to the development and investment process.

However, the existing constraints we face in accessing sufficient capital for development clearly points to capital scarcity as the most important factor limiting productive investments throughout Indian country.

We believe that such a scarcity is the result of certain structural conditions that prevent effective investments from occurring. Like small business in general, new Indian business is restricted from gaining open access to the Nation's structure of financial institutions and markets. A recent Department of Commerce report, "Small Business and Capital Markets," showed that existing financial markets do not reach small business with capital because the markets are: No. 1, risk-averters; No. 2, they avoid conditions where there exists high information and transactions costs; No. 3, there exists increasing market and asset concentrations throughout the financial market structure; No. 4, conscious and unconscious prejudice for small business in general; and No. 5, government regulation places a higher cost burden on small businesses than large-scale enterprises.

Investment in Indian country is further restricted and constrained by a unique and extraordinary condition. I refer to the absolute nonexistence of any Indian community-based financial institutions operating to encourage indigenous savings or acting as a link between tribal communities and regional and national financial institutions. This lack of local Indian financial intermediation has prevented Indian savings, thereby fostering the need to have Federal agencies fill the primary role of financial intermediation for investment. We call such intermediation nonbank Federal intermediation and its track record, as you are aware, has been ineffective and inefficient. This form of

Federal financial assistance, as questionable as its record is, has been almost completely eliminated by the administration and Congress.

Because of the above conditions, the NCAI now believes that it is timely to recommend to this committee a strategy which will begin to establish the foundation for real financial intermediation throughout Indian country. Without a mechanism whereby investment capital can flow to venture and development projects, it is unlikely that economic development will be self-perpetuating.

We believe there is a justifiable need for an independent financial institution which can overcome the barriers to capital which I outlined above. By mobilizing capital and technical assistance for Indian business development, such a financial institution would increase the rate of Indian capital formation and productivity while laying an important cornerstone in the building of financial market structure in Indian country.

I would like to add also that President Reagan, in his program for economic recovery, provided that financial assistance would remain available to those communities that truly lacked access to financial markets.

The National Congress of American Indians' Economic Development Committee, working with the American Indian Development Corporation, after 2 years of intensive study, has developed a blueprint for the creation of an independent financial institution to serve American Indian communities. They recommend the institution have the following characteristics: Be a mixed ownership federally chartered corporation, have a regional branch to serve the widely dispersed Indian population, be able to extend long-term equity capital to Indian businesses and tribes, be able to raise its own equity and debt funds through the sale of tax-exempt bonds, be able to invest surplus to generate income, and be able to charge rates of interest sufficient to defray costs and earn a reasonable rate of return.

The institution, to be successful, must have the capacity to provide and coordinate the use of long-term capital, working capital, technical assistance, and training for Indian businesses. It must be an independent institution where investment decisions are based on objective financial and market criteria. The institution at the onset will require financial support from Federal sources, Indian tribes, private business, and the financial community.

Equity capital for the institution would be generated from the sale of common stock to the Federal Government, Indian tribes, and the private sector. The institution would seek long-term, low-interest Federal financing. Capital would also be generated from the portfolio of sales and earnings. The institution would raise capital through debt instruments such as bonds and notes. To enhance the marketability of institution debt, bondholders' interest earnings should be exempt from taxation.

Federally chartered commercial banks should be authorized to purchase debt instruments and Federal law should authorize the use of instrumentation, debt instruments, by banking institutions to satisfy Federal Reserve requirements.

On the investment policy side, long-term venture capital would be provided to Indian businesses in the form of equity, with the institution retaining the option to sit on the board of directors of the enter-

prise to insure proper management practices. The Institution would establish upper limits on the size of its equity position in any one enterprise, the share of the institution's equity and loans in the project's total cost, and the proportion of the institution's total funds invested or loaned to any one enterprise. Investment policy would be to diversify in investments among different projects such as natural resources, agriculture, light manufacturing, and commerce. Eligible borrowers would be tribal governments, tribal enterprises, Indian cooperatives, partnerships, corporations, and individuals.

To complement its direct loan and equity investments, the institution should be able to provide loan guarantees and to encourage cofinancing with existing financial institutions. The institution would assist its borrowers with brokering and underwriting services. In summary, the institution should serve as the financier, investor, lender, loan packager, guarantor, underwriter, and broker for the Indian enterprises.

My final observation today is that we believe the institution will foster private sector participation. This is crucial as the private sector can bring important infusions of technical expertise and technology to venture projects. The institution can become the vehicle which can reduce the uncertainties of reservation investments in the mind of the private sector. The institution would stimulate the growth of sound business management practices within tribal communities by generating clear messages that investment will only be made after rigorous financial investment criteria have been met on a project by project basis. Such objective criteria will encourage tribes to develop tribal business codes which protect all business ventures and commercial enterprises as well as tribal integrity during the transformation of tribal communities toward self-sufficiency.

The National Congress of American Indians and the American Indian Development Corp., and Indian country ask your assistance in creating the American Indian Development Finance Corp.

Mr. Chairman, I want to thank you and I want to thank the committee. Some of the things that are addressed in this testimony, from my own experience with my own tribe, I can personally relate that these things are possible with the development of tribal codes and strong tribal governments and some stability. But, capital venture is very difficult under the present system and structures that we have to deal with.

Thank you.

Senator COHEN. Thank you very much, Mr. DeLaCruz.

Your prepared statements will be entered in the record at this point.

[The prepared statements follow:]

TRIBES AND TIMBER, A STATEMENT BY JOSEPH B. DELACRUZ, PRESIDENT, NATIONAL CONGRESS OF AMERICAN INDIANS, DELIVERED AT THE SIXTH NATIONAL INDIAN TIMBER SYMPOSIUM, SPOKANE, 1982

We are the people of this land. We are a part of this land and this land is a part of us. We have lived here for thousands of years. We have shared the earth with the many creatures and plants that give us our physical strength, spiritual values, and material needs.

Throughout our history, the forests have been vital to our survival. It is the forest where we find much of our food and medicines. It is the forest where we seek sanctuary to find peace and solitude. It is the forest where we have turned to generate income to support our economies and governments.

While our forests were once used only to satisfy the needs of our tribes, today they produce materials for use all over the world. The lives and attitudes of our people have changed tremendously as age old values have been lost as our relationships to our resources have been dramatically altered.

I am not here, however, to grieve for the past, but rather to speak of the future of tribes and timber. As we all know, the forests are among the most important natural resources of the tribes. For the country as a whole, timber is of major economic importance to 63 percent of the total Indian population that lives on or near our reservations and of minor economic importance to another 18 percent. In 1979, Indian people received more than 117 million in stumpage income from the sale of 819 million board feet of timber.

Now those statistics are quite awesome, but they don't begin to tell the whole story of timber's present and potential importance to Indian people. Many of us have become accustomed to thinking of timber mostly in terms of the stumpage checks we receive and fail to recognize that stumpage income represents only a very small part of the total value of the resource. Let me give you an example.

In a 1968 study of the Indian Forestry Program prepared for the Bureau of Indian Affairs, a total harvest of 466 million board feet of timber was reported for five Indian reservations in the State of Washington. The average stumpage price was $22 per thousand so Indian people receive about $10 million in income.

But what else did that timber produce? According to the Seattle First National Bank, the 466 million board feet of Indian timber supported 16,800 jobs with a total payroll of $89 million, produced $93 million in finished wood products, generated $302 million in regional business activity, and provided more than $11 million in taxes for State and local governments.

These figures are both impressive and troubling. They are impressive because they clearly demonstrate the substantial contribution of Indian forest resources to the economy of Washington State. The statistics are troubling in several ways: First, not many Indian people were aware of the impact of their resources and even fewer understood the tremendous potential influences they could bring to bear on political processes that were affecting their rights and interests.

Second, the statistics were troubling because of what they didn't say. Despite the tremendous contribution of Indian timber to the State economy, our people were receiving only a very small share of the benefits. Non-Indian firms harvested and processed nearly all of our timber. Unemployment rates for Indian people on those five reservations (Colville, Yakima, Quinault, Makah and Spokane) averaged more than 30 percent. For the entire country, there were only 2,500 man years of Indian employment in forestry, logging and manufacturing while more than 5,000 jobs in those industries were being supported by the five reservations in the State of Washington alone. There were 149,000 acres of forests needing thinning on those five reservations, yet only 3,600 acres were thinned. There were 23,000 acres needing reforestation, yet only 152 were planted.

The harvest of 466 million board feet from those reservations was 23 percent below the estimated annual allowable cut and the failure to harvest the full amount cost the tribes more than $2 million in stumpage income and the regional economy 3,800 jobs. $74 million in lost business activity, $4 million in state and local taxes, and $5 million in outlays for unemployment compensation.

I didn't cite these numbers just to confuse you. Over the past decade, similar facts have played an extremely important role in establishing the direction for Indian forestry and in convincing the Congress that investment in Indian timber made sense economically and politically.

I am very pleased to be here at the Sixth National Indian Timber Symposium. The theme "TREEGONOMICS: Accountability and the Management of Indian Forest Resources' 'is very timely because we need a forum where we can openly take stock of where we are in Indian forestry, what progress has been made and what tasks still remain to be done.

I well remember that first symposium in Seattle a few years ago when Indian people had the chance to compare the management of their forests with that of private industry. Many eyes were opened at that symposium and a lot of positive things have happened since that time as the tribes and the Bureau have begun to develop a true working partnership. Over the years, the timber symposiums and the Inter-Tribal Timber Council have been instrumental in developing positive approaches to improve Indian forest management.

Let's go back to a few statistics to see how Indian forestry has done over the last few years. From 1967 to 1981, the number of professional Indian foresters in the Bureau has increased from 14 to 34. At least two reservations developed

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their own forestry business enterprises. Significant progress has been made in reducing backlogs in thinning and reforestation. The performance of agency forestry programs is being actively reviewed and evaluated with the involvement of the tribes. In 1982 for the first time, Indian tribes were given the opportunity to participate in their revision of the Code of Federal Regulations which governs the management of their forest resources.

The tribes and the Bureau can point with justifiable pride at their accomplishments. Yet Indian forestry is still plagued with many difficult problems. Unemployment on our reservations remains extremely high and a large proportion of our timber is still harvested and processed by non-Indian firms. Economic development capital is scarce and access to expertise in business and financial management is grossly inadequate.

The BIA's responsibility for providing forestry services to 2 million acres of ANSCA lands in addition to the 5.6 million acres of Indian reservations has not been defined and the financial resources necessary to assist the Alaska Natives have not been made available.

The total estimated annual allowable cut has been reduced from 1.2 billion board feet in 1967 to slightly more than 1 billion board feet in 1979. Since I'm not a forester, it's really hard for me to understand how we could have been spending more than $5 million a year to improve the productivity of our forests and end up with an allowable harvest 17% below what we started with. There's probably a reasonable explanation and I'd like to know what it is. Are the benefits we were expecting to obtain from our forestry investments going to materialize and if so, when?

The actual harvest of Indian timber has been reduced from 1 billion board feet in 1967 to 819 million board feet in 1979. Allowable cuts still aren't being met and it's costing the tribes millions of dollars each year ($120 million during 1970–1979; $30 million in 1979 alone). This has happened even though more than $6 million a year was appropriated by the Congress to provide the additional BIA personnel necessary to harvest the full allowable cut.

In 1981, there was a reported vacancy rate of 16% in Indian forestry positions and about 50% of the vacancies were at the professional level. Only 34 of 337 professional forestry positions in the BIA are presently filled by Indians.

Of 98 timbered Indian reservations, less than half have a completed forest inventory, only a fifth have calculated allowable cuts, and the few that have current management plans which satisfy the standards in the Bureau of Indian Affairs Manual can be counted on the fingers of one hand.

All these statistics boil down to the simple fact that Indian people still are not receiving the full potential benefits attainable from their forest resources. Tribes cannot afford to permit this situation to continue unchecked for long. Whether we choose to address the issue now or not, it will soon be forced upon us by the mood of political conservatism in the country.

The advent of the Reagan Administration signals a renewal of the climate of fiscal austerity that was experienced during the early 1950's. History has proven that when the Congress and OMB have sought ways to cut public expenditures, Indian needs and interests have frequently fallen by the wayside. We must use every means available to protect our resources from being victimized by the economic and political currents in American society. The memory of the termination era and its devastating impacts on Indian people and their forests is vivid and frightening.

The Administration's fiscal policies have already brought much pain and suffering to Indian country, but they have also succeeded in driving home one critically important message: The reality of our survival as Indian people rests to a large extent upon our ability to organize our efforts and utilize our resources. Our dependency upon outside assistance is our Achilles heel. We must efficiently employ the limited funds and manpower at our command to develop our resources to serve our own needs.

We must have the courage to critically examine ourselves so that we may find realistic solutions to our problems within a cohesive and comprehensive strategy. We cannot undertake this task alone. Tribes must work together. Their greatest vulnerability lies with their collective control over vast quantities of resources; their greatest strength lies in their ability to support one another.

In conclusion, I'd like to share a few ideas about the future of Indian forestry and Indian country:

First, it is important for tribes to collectively develop plans and strategies to preserve and further their common interests. The threats to our resources are everywhere—in the smoke-filled board rooms of corporations, the halls of Congress

and state legislatures, the administrative policies of the Executive Branch, the courts, the living rooms of our neighbors, and even within our own Indian communities. With potential threats so numerous and diverse, no single tribe can hope to survive alone;

Second, it is important for tribes to recognize and utilize the economic power of their resources to influence public opinion. The misconception that seems to pervade the general public is that Indian people drain the treasury while contributing little to the general economy must be eliminated. It is amazing what a little public awareness can do to change attitudes toward Indian people. Several years ago, I saw firsthand a remarkable transformation of the local business community's stance on Indian issues when the Grays Harbor Chamber of Commerce learned of the importance of Quinault timber to the local economy.

Third, it is important for tribes to invent innovative approaches to overcome some of the most troublesome barriers to development of their resources. (Concepts such as collective marketing of Indian timber or the establishment of a tribally supported system of financial institutions to improve access to venture capital might prove extremely valuable);

Lastly, it is important for tribal governments to assume a more prominent place within the American political system. Preserving tribal resources for the benefit of Indian people is synonymous with self-determination and self-government. Tribes can ill afford to tolerate federal preemption of their decisions under the authority of the trust responsibility, they must get out from under the tutelage of the BIA and make their own decisions. Tribal governments are dedicated to the policies and principles that promote the value and way of life of their people and only by asserting the powers of government can the political base necessary to protect tribal resources be established. Together, Indian people can carve a permanent place for tribal governments in the American political landscape and preserve the basis for their survival in the process.

One of the great values of a symposium like this is the opportunity to share ideas and perceptions. It is my hope that many of the issues I have talked about today will be addressed during the next few days. Perhaps what happens here will mark the dawn of a new era of awareness, sophistication and survival for Indian country.

Thank you.

National Congress of American Indians, Economic Development Committee, Position Paper—Private Sector Involvement

(By Ted Bryant)

Many American Indian Tribes and Native Corporations have resources, natural and otherwise, to develop. However, they lack the expertise and the capital. With the declining appropriations to federal agencies, the Tribes and Native Corporations are turning to the private sector.

MIXED EMOTIONS FROM THE PRIVATE SECTOR

Problem: The private sector greets these new opportunities from Tribes with guarded enthusiasm. Representatives of energy companies and other types of corporations view the Reservations from a position of a lack of information. They perceive problems that do not exist and do not anticipate some that are prevalent.

Solution: An educational program needs to be conducted which will make available to interested companies, the opportunities and the difficulties in doing business there.

Information should be made available concerning the availability of energy resources, timber, agriculture, fisheries, tourism, and industrial opportunities.

Also, information should be made available concerning the peculiar situations that may affect business dealings on a Reservation. Examples of things to be included are: the sovereignty of the Reservations, the trust relationship between the Tribes and the U.S. government and the role of the BIA.

RELUCTANCE ON THE PART OF TRIBES TO GET INVOLVED WITH THE PRIVATE SECTOR

Problem: Tribes and Alaskan Natives have been placed in the dependency role for years and there has been no need or opportunity to become involved in for-profit ventures. This lack of experience leads to a lack of trust for private cor-

porations. Tribes also tend to have a lack of understanding of the need by stockholders for a good rate of return on their investment.

Solution: A series of workshops should be conducted, bringing together members of Tribal Councils, Tribal Administrative staff members, and representatives of the corporate world. These workshops would allow for interchanges to bring about a better understanding by both parties.

THE CORPORATE WORLD NEEDS INDUCEMENTS TO LOCATE ON RESERVATIONS

Problem: Local governmental entities and state governments are often in a position to offer various inducements to companies to locate in their areas. Tribes need to have similar opportunities to offer in order to attract the private sector.

Solution: Senate Bill 1088 and the Enterprise Zone bills are of great importance to give Tribes a competitive position in attracting businesses.

Tribal Councils and Tribal economic development personnel need training in what kind of things can be done in order to make their Reservation more attractive to the business world.

They also need training in methods of packaging what they have to offer and inducing companies to compete for the right to locate on their Reservation.

TRIBAL MANAGEMENT IS OFTEN PART OF THE PROBLEM

Problem: Several aspects of Tribal government present a problem in conducting business with the private sector: the lack of separation between the legislative, executive and judicial branches; the lack of continuity within the elected and the administrative branches; and the lack of acceptable management systems.

Solution: Tribes need assistance in separating the three branches of Tribal government so as to make each branch independent and functional.

Tribes need assistance in establishing terms of office that will provide for continuity among the elected council members.

Tribes need assistance in establishing personnel systems that will provide protection for Tribal employees from the political process.

Tribes need assistance in developing Tribal management systems including: administrative policies and procedures, accounting systems, personnel systems, and purchasing systems. The Tribes need assistance in establishing the systems, training staff in use of systems and then Lands-on assistance for an extended period of time.

THE PRIVATE SECTOR FINDS A LACK OF DEFINITIVE RULES AND REGULATIONS ON RESERVATIONS REGARDING BUSINESS OPERATIONS

Problem: There are at least three forms of government on Reservations with the majority being IRA Tribes.

Generally there is no body of law that regulates business operations.

Solution: Tribes interested in doing business with the private sector need to adopt a Commercial Credit Code which covers such things as: eminent domain, sovereign immunity, commercial law, etc.

Assistance should be provided to Tribes to aid them in the development of a Commercial Credit Code.

Senator COHEN. Mr. Baca? Do you have a prepared statement?

Mr. BACA. There is just one statement for all of us.

Senator COHEN. Is it true that the trust status of the Indian lands and resources presents a barrier to the financing as far as the private sector is concerned? Is that one of the major barriers?

Mr. PARKER. You mentioned in your opening statement about this being misunderstood and there was a tremendous misconception about the existence of the ownership, the trustee, and what is that misconception? Is it more misconception or is it an actual legal barrier?

Mr. PARKER. I believe, Mr. Chairman, that the problem is that there has been a perception on the part of the business community that the trust responsibility, the attributes of the trust responsibility, constitute a barrier; a barrier both in terms of the development of the

reservation economy as well as a barrier in terms of investment, increasing the risk factor, et cetera.

But I believe that any objective analysis will yield the answer that instead of being a barrier, really the attributes of the trust responsibility constitute an enhancement of the development potential that exists, because you can easily find alternatives to a mortgage or to a security interest lien. For example, marketing of leasehold interests on a ground lease. That is a marketable property interest which is an alternative to a mortgage. That is adequate security, given the market for that kind of interest; the ability of tribes to assign income from trust assets, to assign lease income as collateral. There are well known means of collateralizing and securing the financial interests of creditors and investors; alternatives, that is, to simply going in with a mortgage. So, I think that there is an adequate record to show that it is not the trust nature of the land itself that is the barrier; it is the perception in the mind of the outside community.

I do not think there is absolutely any need for changing any of the laws as it pertains to the trust responsibility. I believe that the only change we need is to overcome the attitude and the misperceptions that exist as well as the tribes themselves who are looking at changes that they themselves intend to embark upon.

Senator COHEN. Part of the problem is that there is no real leadership being generated at the Federal level to encourage the sort of self-determination that we express but do not follow up with any deeds. Is that not the problem? I would think that, frankly, from an investor's point of view, having the Federal Government as trustee would be, maybe, the greatest security they could get.

We are running a $180-billion deficit, right? Uncle Sam is going to be out there borrowing that money. I would think that the Federal Government being the technical owner, as such, the trustee, would make it very attractive to private investment.

Mr. PARKER. I made a reference in my statement, Mr. Chairman, to the changes I foresee in what I would call the bureaucratic and regulatory function of the trust agency. By that, obviously, we are talking about the BIA at the agency level in terms of what they actually do as trustee. I believe that they have tried to perpetuate, as the bureaucracy tends to protect itself and protect its status, they have tried to perpetuate, really, a sense that they need to sit there and oversee every type of transaction that occurs with respect to trust property and trust income, and that is simply not the case. And, that will change. Tribes themselves will see that as change. But perhaps I can turn this over to Mr. DeLaCruz who, I think, can speak from the perspective of not only a leader of a national organization but also a leader of his own people.

Mr. DELACRUZ. In answer to your question, it has been my experience that it again gets back to the administrative interpretation of the Bureau, the trustee, the solicitors on what you can put up for collateral or what happens as far as loans or mortgages. In most cases the interpretations of the statute's regulations, as Mr. Parker points out, is to keep control of the tribe, and most tribes, unless they are pretty forceful, are not able to get in to the type of ventures that they should. They are not able to get the solicitors, or whoever is interpreting regulations, to make the decision on behalf of the tribe.

Senator COHEN. Let us be very frank about it. You have heard Alan Parker and others who are here, have heard members of this committee and other committees say for many, many years now: "We have got to do something to break the vicious cycle that we have set up for ourselves."

Mr. DELACRUZ. That is right.

Senator COHEN [continuing]. That you cannot have a guardian, ward, trust, relationship in perpetuity without ultimately undermining the role of independence for the people who are in that special status, as such, myself included. So, we have got to do something to move in a different direction to make Indian people more independent. Yet, we do not do anything or the policies that we perpetuate are designed to defeat that move toward self-determination or independence because we do not give you the kind of resources, or the direction, or the leadership to accomplish that.

All we end up doing is just cutting budgets and say: "Fend for yourselves," and so those of us who say we cannot and we should not—as a matter of policy we should not try to perpetuate into infinity this relationship because we find that all it does is recreate the cycle of dependency over and over with the trustees making decisions and monitoring every single transfer, every payment. It undermines, at least in my judgment, the incentive for people to make decisions for themselves.

But the question is how do we get from here to there? How do we go through this evolutionary process to break that chain and to do it in a way that is positive? That is going to take a lot of planning and a lot of patience and, I think, a lot of vision on the part of people. But, right now, our only answer has been just cut the money and you fellows figure out how to do it for yourselves. That cannot be done.

Mr. BRYANT. Mr. Chairman, as it relates to what Alan and Joe both presented in terms of the understanding or the interpretation of regulations by the various Federal agencies, I do not want to be cute about it, but it is almost a "lead, follow, or get out of the way" situation. I mean if the Federal agencies are not going to lead, then at least they should get out of the way with their interpretations, so that the tribes can move ahead in the area of dealing with the private sector.

Senator COHEN. Let me ask you again whether it is perception or legal obstacle. What about the possibility of the tribe raising the defense of sovereign immunity? Is that seen, from your experience, as a barrier to the private sector from becoming involved in tribal affairs?

Mr. PARKER. Mr. Chairman, in response to that, it has, again, been a perception on the part of the business community and, in fact, there is in the record of the case law and the subject instances where a non-Indian business firm or corporate entity, what have you, has brought suit against an enterprise of a tribe, and the tribe would be able to successfully assert the defense to such a lawsuit that they did not waive their immunity.

But the law is fairly well established on the point that the tribe can waive its immunity. A tribe can waive its immunity by creating a corporation and waiving immunity with respect to the assets of that

corporation, just as in any business venture the assets which are at risk, and the law is well established that that can be done.

Now, if the arm's-length business relationship does not result in some sort of negotiation that addresses that point, that is, if I were an outside firm doing business with a tribal corporation, and I did not——

Senator COHEN. What if that institution did not have much in the way of assets and I said I want to go beyond that before I invest any money? I want to have the full faith and credit or the stamp of approval of the tribe and its assets?

Mr. PARKER. Well, I do not believe that any business corporation would find that the Federal Government would waive its immunity beyond the very limited purposes——

Senator COHEN. We can only do that by Federal legislation. The king does not waive his immunity unless it is written into law.

Mr. PARKER. Absolutely. I mean we have to distinguish between the tribe as a government, wherein the concept of sovereign immunity makes perfect sense, and the tribe as a corporate entity, as the owner of the resources of the tribe collectively, and in that corporate capacity the tribe does business as business is done. But, in its sovereign political capacity the tribe has every right to assert and maintain the immunity.

Senator COHEN. Would the proposal that you have submitted today in any way duplicate or compete with the American Indian National Bank?

Mr. DELACRUZ. We believe it would enhance the outside financial community, including the American Indian National Bank.

Senator COHEN. You would not see it as being competitive?

Mr. DELACRUZ. No. Bob, you might comment on that.

Mr. MCLAUGHLIN. The difference between the two types of institutions is that one is a development finance institution providing long-term equity capital injections into Indian country. The other is a commercial bank. The development finance institution would encourage branch banking and other kinds of commerical banking to develop the intermediation that we talked about earlier. So, they really are complementary.

Senator COHEN. Do you envision establishing regional or branch divisions of this financial institution? Is there any plan for that?

Mr. DELACRUZ. Joe.

Mr. BACA. Senator, the model calls for regional offices, as appropriate. In the matter of scale, it seems that could develop at a relatively small scale and with experience and growth it would be able then to go out to regional branches that would better serve the particular Indian communities with their various resources and various bases. Yes, the model does call for a regional base.

Senator COHEN. For my own purposes, what is the model based upon? What have you used?

Mr. BACA. The American Indian Development Corporation, over the past few years that we have discussed today, has looked primarily at Federal intermediation of the various Federal agencies and looked at strengths, weaknesses, and their track record. It then looked at some of the domestic models to include commercial banks and their

strengths, weaknesses, and capability of delivery services and developing in Indian country.

It looked at quasi-Government entities such as the Tennessee Valley Authority and others of similar nature. It looked at the World Bank and the World Bank groups.

The most adaptable model is from the World Bank group, the Development Finance Corporation-type where public money is invested into a Development Finance Corporation and specifically used for private sector development. It is the adaption of this model and modifications taking into consideration the Indian country sovereignty jurisdiction and the issue of trust woven in and adopted from the Development Finance Corporation, the World Bank model, which serves as the model for the proposed American Indian Development Finance Corporation.

Senator COHEN. I, perhaps naively, asked before which comes first, the training and strengthening of tribal management or the private sector investment and, of course, the answer was they both have to go together. But as a practical matter, it seems to me that the private sector is not going to invest unless they are satisfied that there is competency and management skills within the tribal government itself. We really have not produced a program yet, that I am aware of, that is enhancing tribal management to date, and I think that we are really going to have to focus upon that if there is going to be any hope to encourage the private sector to have confidence in that. Would you not agree?

Mr. BACA. Well, I still think they can be done at the same time, because, first of all, to have the motivation for the tribal leaders to institute programs of improvement in their tribal management, I think they have to see on the horizon that there is some possibility of some private sector involvement, some joint ventures, and they are not going to—people, I do not think, will necessarily institute programs of tribal management improvement just for tribal management improvement's sake. There has to be something else going on. So, I think that they go hand in hand.

There are some other areas that I think are going to come out later in the testimony that will provide the incentive to the private sector and I am going to just say the bill is 1088 but other—because I think somebody else is going to talk about it. But there are some other inducements to the private sector to become involved on the reservation and I do not think it is our area to talk about. But there are some other things that will come up later.

Senator COHEN. I have just one more question and then I will have to declare a brief recess to go over and respond to a vote.

Mr. Parker, there was a case, and I am told it is *Seminole* v. *United States*, decided back in 1942, that the United States was actually held liable for the mismanagement of trust assets and it is this rationale that has, for liability at least, prevented the Federal authorities or the Interior Department to relinquish that control over the disposition or use of trust assets. Now, is there going to be some modification required, in your judgment, in order to give you or the tribes more flexibility, more decisionmaking authority? It seems to me we are going to have to deal with that issue about holding the trustee liable for mismanagement of assets also.

Mr. PARKER. Mr. Chairman, I think that is what we call a red herring. I do not think there is any basis for holding that the trust status has to be changed based on that kind of case.

I believe that the trustees' function is, at bottom, to see that the tribe does not enter into an unconscionable deal that involves trust assets, and that bottom function——

Senator COHEN. Well, unconscionable, what about negligence?

Mr. PARKER. Well, negligence gets to the administration. See, there are two different aspects that we are looking at here. One is that the trustee manages the corpus of the trust, that is, the lands and the resources, and the trustee also sits there and looks over the shoulder of the tribe as it enters into business relationships that pertain to the corpus of the trust. Those are two distinct but related roles of the trustee.

And the role of the trustee as the manager of the resource, then I think that the standards which apply to the trustee in the non-Indian context should apply to the trustee's role as manager of the resource, because certainly the Indians are not controlling those resources. If the trustee is controlling them, he should be held liable for negligence and for malfeasance, et cetera. If the Indian is managing the resource, then the trustee's job is to make sure that the Indian does not dissipate the corpus of the trust because the beneficiaries, ultimately, are the people themselves, and that function can be performed quite adequately and still allow the tribe the degree of control that it desires to assert.

Senator COHEN. Some trustees, of course, have held that they should allow the appointment of incompetent managers, for example, to be dealing with the trust. They are held liable for the negligent employment of people who were not capable of carrying out the function. So, that has to be a consideration at least, and this ties back into tribal management, why we have to have more directed toward enhancing and strengthening the tribal management functions.

Gentlemen, thank you very much.

You expressed it first, Mr. Parker, that perhaps out of adversity will be born the spark of creativity; that tough times put people up against the wall to come up with new ideas as to how they are going to cope. I know in my own State, when it comes to the energy crisis, we have had to cope with that and we have done so in unique and sometimes old ways.

But I think that your testimony this morning will be very helpful in forcing us to think about new ways of dealing with this issue that we have not faced before. So, I appreciate your testimony.

The hearing will stand in recess for about 10 minutes and then we will resume.

[Brief recess.]

Senator COHEN. The hearing will come to order. Our next panel of witnesses will include Harry Early, Ronald Gutierrez, and Caleb Shields, on behalf of the Council of Energy Resource Tribes.

Good morning. Sorry for the delay but they had expected a vote right away but now we are told we have 15 minutes before the vote comes. So, why don't you proceed?

TESTIMONY OF PANEL CONSISTING OF: HARRY EARLY, GOVERNOR, LAGUNA PUEBLO AND CHAIRMAN, CERT ECONOMIC DEVELOPMENT COMMITTEE; RONALD GUTIERREZ, SPOKANE TRIBE, COMMITTEE MEMBER; CALEB SHIELDS, FORT PECK INDIAN COMMUNITY, COMMITTEE MEMBER; AND ED GABRIEL, EXECUTIVE DIRECTOR, COUNCIL OF ENERGY RESOURCES TRIBES

Mr. EARLY. Good morning, Mr. Chairman. Senator, it is a pleasure to be here. I would like to introduce my colleagues. To the right here I have Caleb Shields from the Assiniboine Sioux Tribe, Ft. Peck, Poplar, Mont., and Ronald "Buzz" Gutierrez of the Spokane Tribe from the State of Washington. We three serve on the Council of Energy Resources Economic Development Committee, recently established. To my left here is Mr. Ed Gabriel, executive director of the Council of Energy Resources Tribes.

Mr. Chairman, I am Gov. Harry Early from the Pueblo of Laguna. I serve on the executive committee of CERT. CERT is the shorter version of Council of Energy Resources Tribes. I am also chairman of this particular committee, and in these capacities I have come here to testify not only for CERT but I have submitted my own testimony in behalf of the Pueblo for the record.

I will touch only on the testimony to be presented by this particular group on behalf of CERT.

The Council of Energy Resources Tribes is pleased to testify at this most important hearing on economic development problems facing American Indian tribes. We would like to submit our written statement for the record and summarize our remarks.

We also commend this committee for recognizing the urgency of examining the economic problems in Indian country and for holding these hearings at such a critical time. We hope that the national focus being brought by these hearings to the tremendous problems facing Indian tribes will provide for the development of new national Indian economic development policies that will truly recognize the magnitude as well as the uniqueness of these problems.

CERT, a coalition of 34 Indian tribes with substantial energy resources, is keenly aware of the failure of many past Federal policies to foster the development of stable and sound reservation economies. We believe that the three necessary conditions for true long-term economic development are: No. 1, tribal control of reservation resources; No. 2, access to capital; and, No. 3, effective tribal management of economic affairs.

Policies which do not serve to provide sound structural change and which do not address all three of these conditions simultaneously are doomed to failures as in the past. This principle applies to all Indian reservations, not just those which have an endowment of energy resources.

We would like to begin our presentation by discussing certain major obstacles to tribal economic development that could be reduced with passage of legislation currently pending before this Congress: the need to strengthen tribal governments, as addressed in S. 1088; the need for a credible tax treatment of tribal governments as embodied in the Indian Tribal Governmental Tax Status Act; and the need to au-

thorize the approval of minerals agreements negotiated by tribes provided in S. 1894. We will then turn briefly to certain administrative steps that could be initiated by the Federal Government to meet tribal economic development needs, including regulatory reform and natural resource management, and development, assistance to tribes in marketing their resources and improving the current techniques for evaluating the conditions of tribal economies.

Finally, Senator, we would like to briefly discuss the applicability of the enterprise zone concept to Indian reservations.

Tribal experience has shown us that the cornerstone of true economic development on Indian reservations is through the establishment of stable tribal governments with the management and structural capacity to effectively carry out their responsibilities.

The importance of strong and effective tribal government associated with long-term economic advancement cannot be overemphasized. In fact, we believe that, without Federal support to help tribal governments build strong foundations, all other policies attempting to foster economic development will be destined to fail.

Why is such great emphasis placed on tribal government? The answer is that a stable, strong, and effective government is one of the important foundations for both successful economic enterprises and a supportive social and economic infrastructure. Appropriate Federal policies are critical to help break down the numerous obstacles to the enhancement of tribal economies. Yet, by their very nature, such policies cannot be applied rigidly to all reservation situations. The tribes themselves must have the capability to establish their economic development objectives appropriate to their individual cultures, socioeconomic conditions, natural resource endowments, and the myriad other factors that cannot possibly be evaluated from Washington. And, they must have the management tools to effectively govern consistent with these objectives.

Strong and effective government can develop and carry out community-determined programs supportive of balanced social and economic growth, and can establish a climate conducive to private sector investment, markets, and job opportunities for tribal economies. Without such strength it is likely that the private-sector investment, if it takes place at all, will not be consistent with the long-term needs and interests of the tribe.

For these reasons, CERT has worked extensively with the Administration for Native Americans, ANA, in carrying out its tribal government capacity-building programs. With the assistance of ANA, tribal governments are gaining the tools they need to effectively manage their own affairs, consistent with their own objectives.

We believe that the capacity-building programs of ANA have proven to be among the most cost-effective tribal economic development activities ever attempted by the Federal Government. Capacity-building expenditures for this program should be viewed as a cost-effective investment and not as simply another discretionary Federal program ripe for budget cutting. This is particularly true given the relatively small budget of the agency. Yet, ANA's budget was cut by 17 percent last year and it is targeted for an additional 17 percent in the President's proposed budget for fiscal year 1983.

These cuts must be viewed against the fact that from fiscal year 1976 through fiscal year 1981 ANA has been funded at a static level of $33.8 million. Thus, with inflation taken into account, the real budget of ANA has been cut about 50 percent during this period.

We firmly believe that the small budget savings realized by these cuts do not come close to the negative impact that a reduced ANA program will have toward the objective of long-term tribal economic self-sufficiency.

Last year this committee reported a bill reauthorizing ANA, S. 1088, which included a provision designed specifically to enhance the agency's ability to assist tribes in strengthening their governments. Simply stated, this provision included as section 7 of S. 1088, would authorize and direct the Secretary of Health and Human Services, through ANA, to provide financial assistance through grants to tribal governments for the employment of tribal government employees and for programs to increase the skills and qualifications of these employees, which would enable tribal governments to more effectively assume local responsibility for the economic and social well-being of their tribal members.

There are three very important points in regard to section 7. First, there is no discretion involved; the Secretary of Health and Human Services must make this assistance available provided an acceptable plan is submitted. Second, there is explicit provision for funding tribal government staff without ties to social or welfare programs or any other Federal grant program. Third, it requires tribal government to plan for the improvement of tribal social and economic self-sufficiency in its own terms.

We believe that the mechanism provided by section 7 is an important means of transferring responsibilities and authorities to tribal governments. It heralds a turn away from the paternalism and dependency of the past by establishing a means of staffing and supporting tribal governments so that tribes can become economically self-sufficient.

We strongly support S. 1088 and believe that its passage by Congress this year is essential. S. 1088 must be viewed as an integral and vital component of a tribal economic development policy which, unlike so many failures of the past, places primary emphasis on the role of strong and stable tribal governments.

We are deeply concerned that there has been no forward movement of this bill since it was favorably reported by this committee last May. It has not been brought to the Senate floor for consideration and has yet to be introduced in the House. There is now a very real danger that this critical legislation will not receive a fair hearing on the Senate floor or in the House unless steps are taken now to get it back on track. This bill is far too important to simply die without being brought up for a vote and we urge all members of this committee to provide their active support to help assure that this does not happen.

Another major obstacle confronting tribal governments attempting to generate revenues is that they do not currently have a number of Federal tax advantages enjoyed by every other government in these United States, including State, county, and municipal governments. We strongly support the Indian Tribal Governmental Tax Status Act

currently pending in both Houses of Congress which remedies this situation.

The Internal Revenue Service rulings issued during the late sixties and early seventies holds that tribes are neither States nor political subdivisions of States and are not eligible for certain benefits given States and their political subdivisions under the Internal Revenue Service Code.

As a result, the revenue-raising and saving mechanisms available to, and used by, other governments are closed to Indian tribes.

The immediate revenue impact of the bill could be negative. The total effect on the Federal budget would be positive. In 1978 a House Ways and Means Committee report estimated, with the Treasury agreeing, the bill would reduce Federal tax revenues by less than $5 million. This, in itself, is a small dollar amount but more significant is the savings that accrue to the Treasury if this bill is passed. Public projects that now are subsidized to a great extent by direct Federal assistance would be opened to private financing on the same basis as State, county, and municipal projects.

The Tax Status Act was also introduced in Congress last year and, again, there has not been any movement in either Chamber. There is now a real danger that it will, again, die in Congress. This would be a tremendous setback for tribes if allowed to happen, and we respectfully urge all select committee members to support this bill.

Although energy production has taken place on reservations for many years, there has resulted very little economic return or monetary benefits to the producing reservations. These tribes, lacking the in-house management capability and the financial resources to obtain their own expertise to evaluate and negotiate agreements with minerals companies, have had to rely on the BIA as their trustee to negotiate on their behalf. All too often, the BIA-negotiated agreements have turned out to be detrimental to the economic and other interests of the tribes.

Now, instead of the traditional BIA approach of selling leases with cash bonus and fixed royalty rates, tribes have begun to explore innovative approaches such as participating in joint ventures, production sharing, and service contracts enabling them to maintain full or partial ownership and to have a role in management decisions. Since 1975 at least a half dozen such agreements have been negotiated. Yet, in 1980 the Department of the Interior itself still raises questions about its own authority to approve such agreements.

The bill before this committee, S. 1894, removes any questions about the Department's authority in this area. Simply stated, it provides the Secretary the authority to approve minerals agreements, whether they are leases, joint venture arrangements, or any other form of agreements, provided that he does not make a finding that such agreements are not in the best interest of the respective tribe.

During hearings held on S. 1894 by this committee, a number of tribal leaders expressed concern over specific parts of the bill and recommended changes to address these concerns. We urge you to take these recommendations into account and to favorably report a bill responsive to them. We also believe that a unanimous vote by this committee is important to enhancing the bill's prospects before the full Senate.

This must be done in the very near future since time is running out for consideration by the 97th Congress. But, for the same reason, we are most anxious for a companion bill to be introduced as soon as possible in the House.

Senator, today there is no way to measure economic conditions on any individual reservation. Because of this development, specialists have proposed that it would be useful to have systematic, economic indicators for Indian reservations. Such a system of economic indicators would allow us to report progress in achieving economic self-sufficiency.

Baseline data is also needed. Then both tribal governments and the Federal Government could measure the changes in reservation economies. The development of such data and indicators can serve to provide a framework against which the effects of economic development policies can be assessed, whether they really count at the reservation level.

We would like to very briefly discuss the enterprise zone concept that is receiving so much interest. The basic premise of the enterprise zone concept is that with appropriate economic incentives and reduction of regulatory impediments in specifically targeted economically depressed areas a climate will be created in these areas which will induce private sector investment.

The administration's enterprise zone proposal provides for HUD to designate up to 25 targeted areas per year over the next 3 years as enterprise zones. We are pleased that Indian reservations are recognized and will be eligible for a designation. The incentives provided may well induce certain industries to locate on reservations and contribute to long-term economic advancement or development.

But we would caution against any notion that enterprise zones can, by themselves, be a major solution to the economic problems on reservations. To begin with, only 75 areas will be designated over the next 3 years and the competition among States, municipalities, and tribes will be very intense. Probably no more than a handful of reservations will be able to win out in the competition. But beyond this problem there are more fundamental obstacles to tribal economic development that cannot be remedied with enterprise zone designation alone.

The sad fact of economic life on the reservations is that there is almost total lack of infrastructure to support economic enterprises, including basic elements like adequate roads, sewers, or public utilities. On Indian reservations enterprise zone incentives are not likely to attract investors unless tribes can demonstrate that an adequate infrastructure is in place or that they ar taking steps to build the needed infrastructure.

We believe that enterprise zones can work on certain reservations provided that the other necessary factors for economic development are in place. However, the enterprise zone concept must be viewed as only a part of a total tribal economic development policy and cannot work in a vacuum without such policies.

We are supportive of the enterprise zone concept and, again, are pleased that Indian reservations are to be included. But at the same time, the limited capabilities of this concept must be recognized and other forms of Federal economic development assistance must be provided to the tribes.

The next witnesses at this hearing will also discuss additional needs including the key need for assistance to put an adequate physical infrastructure in place on the reservation.

We believe that the national discussion over enterprise zones serves to highlight the need for special measures to stimulate private sector investment and particularly in economically depressed areas. We hope that the dialog that has begun will expand and focus on the underdevelopment of reservation economies and will culminate in the establishment of a comprehensive national policy to support Indian economic development.

Mr. Chairman, this concludes my statement.

Senator COHEN. Thank you very much, Mr. Early, and I will apologize to you gentlemen that I will have to declare a brief recess while I go over and vote and come back, but hopefully it will be sooner than last time. We will stand in recess for about 10 minutes.

[Brief recess.]

Senator COHEN. The hearing will come to order. Have you completed your statement?

Mr. EARLY. Yes.

Senator COHEN. Are there any other members of the panel who would like to address the committee formally?

Perhaps I could just pose a couple of questions. I think you indicated, Mr. Early, that the ANA budget, for example, has suffered, in essence, a 50-percent cut; that the budget has remained static during the years 1976 to 1980 or 1981.

Mr. EARLY. Yes, sir, that is correct.

Senator COHEN. And, since that time it has been reduced significantly. What is the ability of the tribal governments to support the sort of private sector economic development activity when these budget cuts go into effect? How are you going to cope with that?

Mr. EARLY. Very little. None, Senator.

Senator COHEN. So the answer is you are not going to have much in the way of tribal management development?

Mr. EARLY. No, I think if, say, the $50 million were included under section 7, it would give seed money to help develop those types of projects where you look to develop economic developments needs. I have a project ongoing now with the Department of Defense, for example, and I have had some help from ANA programs. I have put together a total financial package, hopefully, to be able to use the 1910 Buy Indian Act as discussion authority with the Secretary of Defense to help implement some type of activity geared toward economic development at the Pueblo of Laguna.

Senator COHEN. Now, your proposal, as you have indicated, and I believe Alan Parker before you, said that you are not really going to divide this up between, energy rich and energy poor tribes, but treat all tribes equally or at least equitably. Now, you have been working with tribes that generally are more energy rich than others, have you not?

Mr. EARLY. Yes, sir, that is correct.

Senator COHEN. Well, to what extent have your activities contributed to the economic development of those tribes with which you have been working? What barriers have you found, even in the face

of those activities? What has been your experience to date in working with energy-rich tribes as opposed to those who do not have those kind of resources?

Mr. GABRIEL. Senator, I guess we have some good news and bad news in that answer. From a project point of view I think we have seen the beginnings of a lot of large projects begin in the energy development area and also spinoff industries from such development, where the tribe is beginning to share in more equity, thereby getting more revenues to help sustain its Government capability.

What we have seen, though, at CERT, and I think after 5 years have to admit, is that although the project success has been very good, what we have is a real major problem when you look at the overall economic development strategies. There is basically very little foundation with most tribes. That translates, basically, into little management structure in some cases; lack of Federal policy and direction that would encourage that; and inability by tribal council to make policy decisions.

In the past we have seen a lot of categorical grants that go to segments of the tribe as opposed to the council really being in the driver's seat to make yearly budget decisions; to make yearly policy priority setting goals.

What we are trying to say in all of this is that, in a way, projects are good and it does raise revenue but a lot of that potential becomes lost if you do not have the basic structures of Government and substructures of management, business, and carrying out of Government sanctions.

We believe that the basis to any economic development, before you talk about projects or private sector, is just putting together a strong governmental capacity in which the council really is in the driver's seat to make local decisions. The rest will follow, in our opinion.

Senator COHEN. Don't you have a problem? I think Mr. Early indicated, one of the key points is you want tribal control of Federal reservation property or assets, right? At some point in time you come into direct conflict with the Department of the Interior. How do we resolve that?

Mr. EARLY. Mr. Chairman, I think the problem is not so much how do we resolve that. I think it is a matter of, for example, Laguna being a part of the CERT organization, we know that the Bureau's role in trying to provide the type of activity that would help me achieve economic self-sufficiency, for example, or self-determination, is just not there. I think at the level of the bureaucracy, for example, a GS–12 does not recruit a potential geologist for a person with the expertise to provide technical assistance to Pueblo Laguna.

I will give you one prime example of a lesson taught to me over the past 2 or 3 weeks. The gas company of New Mexico came forward with a proposal; a 20-year pipeline, 13 miles long; a 16-inch pipeline. Their offer was $74,500. Mr. Ahmed Kooros, who is the chief economic adviser for CERT, came down to the Pueblo and has worked with me for, oh, 2 to 3 weeks, and just using his economic theories we have helped negotiate—he helped me negotiate with the company a total of $237,000; $198,000 cash up front; $20,000 for a scholarship; and $12,000 to pay my committee's fee. There are three of us from the

council as a negotiating committee with the private power companies. This new way of dealing with private companies actually helps me achieve the very thing we are trying to accomplish toward self sufficiency.

I said I wanted the money up front, $237,000. I can take that same $237,000, put it in the bank where I can watch it grow, watch the interest compound, and over that same 20-year period I will achieve a million dollars, which will help toward that type of self-sufficiency and in that same sense I will do the same type negotiation with other pipeline companies that traverse the Pueblo of Laguna. This is the kind of help we get from CERT staff.

Senator COHEN. Mr. Gutierrez?

Mr. GUTIERREZ. Yes, Mr. Chairman. On your question of the conflict we referred to, we will eventually come together and have a conflict. I feel that the tribes are the ones that should give the direction to the Federal system on how to implement the trust responsibilities. The Spokane Tribe itself has been in a fight for 2 years now, advising BIA of what trust responsibilities we need protected. They do not take it to heart that the tribes are the ones that—who else could protect the resource better than the tribe themselves is what I am trying to say. With our direction, and them accepting our direction, and getting in the boat with us and going along together instead of the tribes constantly being faced with loopholes and barriers to climb over and to have regulations in force. They do not have the expertise at this present time. It is a sad state, but it is a fact.

Senator COHEN. What protection is there now in existing law for the private sector that invests in tribal activities?

Mr. GABRIEL. I will take a stab at that. Alan Parker made mention of this earlier and I really think that there are a lot of mechanisms that can be achieved through the negotiation process with a company; through better regulations and codes that are developed on the reservation and also in terms of just securing collateral against future revenues as opposed to the problems you have with trust lands. You can collateral future revenues.

Another point I would like to make: that is, how I would answer it in terms of just the deal itself and structuring something that is workable.

Another thing that we often hear is, tribes can not keep deals. There have been problems. Who is at fault? I am not sure, but if we get at the management questions, I think, and policy setting questions of the tribes, I think that will improve.

But further, I just believe that tribes do not break deals just to break them. There was no provision at Wind River in their contract to have companies steal oil. There were no provisions in Spokane's uranium agreement for the companies to desecrate the land. There is probably good reason why deals are broken and I think there is, basically, when you look at the history of keeping deals with business, between businesses, or other entities, you will see that the record is pretty consistent for all sectors of the economy and for some reasons Indian land sticks out and I do not think it should.

Mr. GUTIERREZ. Also, briefly, Mr. Chairman, the private sector, I feel in many ways, that the Federal regulations somewhat protect the pri-

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vate sector in certain ways through the lack of enforcement of those regulations.

If the private sector knew exactly, up front, what it was that they had to deal with there would be a better harmony there. They go through the regulations and they find a loophole and everything is written in a general form that they will take it and turn it the way they want it. The enforcement of those regulations sometimes is very hard. But, in turn, if we had everything and put the cards on the table, strike a deal, Indian people do not break deals, as Mr. Gabriel referred to.

If we know what we are into, and we have a very strong hand in it and are leading the negotiations to a deal, I think the private sector would be able to deal more comfortably with tribes.

Senator COHEN. Mr. Early, in part of your prepared testimony you talked about S. 1298 which is the Tribal Tax Status Act legislation which has been introduced by Senator Wallop, and you express your support for that bill. Just for my own edification; it is my understanding that this legislation does not grant any new tax status as such, any new taxing authority to tribes that they do not already have, but what it does do is it provides exemption from Federal taxation to the same extent that we do extend it to State and local governments. Is that a fair conclusion on my part?

Mr. EARLY. Yes, sir, that is correct. We support that.

Senator COHEN. Gentlemen, thank you very much. We are running a little bit behind schedule so I would like to proceed to the next panel of witnesses which will include Phillip Martin, Earnest Tiger, and Charles Trimble, speaking on behalf of the National Tribal Chairman's Association.

Thank you very much.

Mr. EARLY. Mr. Chairman, we thank you for the opportunity on behalf of CERT to be able to appear before the committee this morning.

Senator COHEN. Thank you, Mr. Early. The material you submitted will be made part of the record at this point.

[The material follows. Testimony resumes on p. 48.]

MATERIAL SUBMITTED BY HARRY EARLY, CHAIRMAN,
COUNCIL OF ENERGY RESOURCE TRIBES

Indian nations throughout the United States are planning for accelerated development in proportion to their population rate of increase. These Indian nations must develop a strategy whereby wise investments are made in both things and people. A strategy for the development of human resources, the formation of human capital, is essential. It is necessary for politicians and planners to understand that the development of human and physical resources must be integrated carefully in any master plan for growth.

Education for the sake of education alone has not produced the desired returns so dearly needed by the Indian communities. In order to secure these returns Indian tribes must adopt a twofold objective of building skills and providing productive employment for unutilized or underutilized manpower. This problem is paradoxical in that the shortage of persons with critical skills is one of the contributing causes of this surplus of people without jobs. Although the manpower problem of no two Indian reservations are exactly alike, there are some shortages and surpluses which appear to be universal.

MANPOWER

1. In all modernising tribes there is likely to be a shortage of highly educated professional manpower, such as, for example, doctors, accountants, and teachers. Such persons, however, usually prefer to live in the cities rather than on the reservations, where their services are most urgently needed.

2. The shortage of technicians, agricultural assistants, supervisors, and other subprofessional personnel is generally even more critical than the shortage of fully qualified professionals. The demand for this category exceeds those for senior professionals. One reason is that the few persons who are qualified and willing to enter a technical institute may also be qualified to enter a university, and they prefer the higher status and pay that accompany the degree.

3. The shortage of top-level managerial and administrative personnel, in both the public and private sectors, is almost universal, as is the _____ of persons with entrepreneurial talents.

In terms of future growth and development these types of people might be designated "Human Capital." Human capital formation is thus associated with

investment in people. Human capital formation includes not only expenditure for education and training but also the development of attitude toward productive activity. Human capital must precede a study rate of self-determined economic growth. It must also exceed the rate of increase in the labor force.

LABOR FORCE

The overabundance of labor is in most tribes as serious a problem as the shortage of skills. Its common manifestations include:

1. The progress that has been made towards primary education has contributed to the problem of mounting unemployment of primary school leavers.

2. The "unemployed intellectual" constitutes an entirely unique kind of surplus. In many instances, customary staffing practices do not allow for placement of educated Indians. A sizeable quantity of unused human capital reflects a wasteful investment in human resources development and poses a serious threat to a tribe's social and political stability.

3. In the agricultural areas of the country many people were displaced by automated machinery. These are the structural unemployed.

Some labor surpluses can be eliminated and others reduced by a well-conceived and balanced program of economic growth. A strategy of human resource development must include an attack on surpluses as well as shortages.

A MANPOWER PLANNING STRATEGY

Manpower planning involves the taking of measures now to ensure that the proper number of qualified and motivated people are in your workforce and community at some specific and future time to do the job that has to be done. Inventory and analysis present manpower needs, and labor surpluses and shortages reasonably project manpower needs in relation to expected growth in terms of quality and quantity. The essential components would include the following:

1. the building of appropriate incentives;
2. the effective training of employed manpower, and

3. the rational development of formal education.

IMPLEMENTING THE STRATEGY

Investments in formal education under the present structure lacks adequate incentives to encourage people to engage in the _____ of productive activities which are needed in the Indian communities. Education for the sake of education alone has been practically useless as far as returns to Indian communities are concerned. But education with direction and commitment holds the greatest potential for Indian communities.

INTRODUCTION

The Council of Energy Resource Tribes (CERT) is pleased to testify at this most important hearing on economic development problems facing American Indian tribes. The economic conditions of Indian tribes and their federal domestic policies have always been at the "edge of the cutting board" of federal domestic policies, and recent policies, particularly the cuts of the past year in the budgets of federal assistance to tribes, have had a direct and major deteriorating impact on tribal economies. We commend this Committee for recognizing the urgency of examining the economic problems in Indian country and for holding these hearings at such a critical time. We hope that the national focus being brought by these hearings to the tremendous problems facing Indian tribes will provide for the development of new national Indian economic development policies that will truly recognize the magnitude, as well as the uniqueness, of these problems. The three American Indian organizations here today have agreed among ourselves to talk about certain aspects of these problems, and we believe that if all of the recommendations presented are considered together they should form basis of these much-needed new policies.

CERT, a coalition of 34 Indian tribes with substantial energy resources, is keenly aware of the failure of many past federal policies to foster the development of stable and sound reservation economies. We are in agreement with the conclusion of the Task Force on Reservation Development and Resource Protection in its 1976 report to the American Indian Policy Review Commission that the three necessary conditions for true long-term economic development are:

(1) tribal control of reservation resources;

(2) access to capital, and

(3) effective tribal management of economic affairs.

Policies which do not serve to provide sound structural change and which do not address all three of these conditions simultaneously -- control, capital and management -- are doomed to the failures of the past. This principle applies to all Indian reservations, not just those which have an endowment of energy resources.

We would like to begin our presentation by discussing three major obstacles to tribal economic development that could be reduced with passage of legislation currently pending before this Congress: the need to strengthen tribal governments, as addressed in S.1088; the need for equitable tax treatment of tribal governments as embodied in the Indian Tribal Governmental Tax Status Act, and [illegible] authorize the approval of minerals agreements negotiated by tribes, provided in S.1894. We will then turn briefly to certain administrative steps that could be initiated in a relatively straightforward manner by the federal government to meet tribal economic development needs, including regulatory reform in natural resource management and development, assistance to tribes in marketing their resources and improving the current techniques for evaluating the conditions of tribal economies. Finally, we would like to briefly discuss the applicability of the enterprise zone concept to Indian reservations.

NEED TO STRENGTHEN TRIBAL GOVERNMENTS

Tribal experience has shown us that the cornerstone of true economic development on Indian reservations is through the establishment of stable tribal governments with the management and structural capacities to carry out their responsibilities effectively. The importance of strong and effective tribal governments associated to long-term economic advancement cannot be over-emphasized. In fact, we believe that without federal support to help tribal governments build strong foundations, all other policies attempting to foster economic development will be destined to fail.

Why is such great emphasis placed on tribal government? The answer is that a stable, strong and effective government is one of the important foundations for both successful economic enterprises and a supportive social and economic infrastructure. Appropriate federal policies are critical to help break down the numerous obstacles to the enhancement of tribal economies. Yet by their very nature such policies cannot be applied rigidly to all reservation situations. The tribes themselves must have the capabilities to establish their economic development objectives appropriate to their individual cultures, socioeconomic conditions, natural resource endowments and the myriad other factors that cannot possibly be evaluated from Washington. And they must have the management tools to effectively govern consistent with these objectives.

For these reasons, CERT has worked extensively with the Administration for Native Americans (ANA) in carrying out its tribal government capacity-building programs. With the assistance of ANA, tribal governments are gaining the tools they need to effectively manage their own affairs, consistent with their own objectives.

We believe that the capacity-building programs of ANA have proven to be among the most cost-effective tribal economic development activities ever attempted by the federal government. Capacity-building expenditures for this program should be viewed as a cost-effective investment, and not as simply another discretionary federal program ripe for budget cutting. This is particularly true given the relatively small budget of the agency. Yet, ANA's budget was cut by 17 percent last year, and is targeted for an additional 17 percent in the President's proposed budget for FY'83. These cuts must be viewed against the fact that from FY'76 through FY'81 ANA had been funded at a static level of 33.8 million dollars. Thus, with inflation taken into account, the real budget of ANA has been cut about 50% during this period.

We firmly believe that the small budget savings realized by these cuts do not come close to the negative impact that a reduced ANA program will have toward the objective of long-term tribal economic self-sufficiency.

Last year this Committee reported a bill re-authorizing ANA, S.1088, which included a provision designed specifically to enhance the agency's abilities to assist tribes in strengthening their governments. Simply stated, this provision, included as Section 7 of S.1088, would authorize and direct the Secretary of Health and Human Services, through ANA, to provide financial assistance through grants to tribal governments for the employment of tribal government employees and for programs to increase the skills and qualifications of these employees, which would enable tribal governments to more effectively assume local responsibility for the economic and social well-being of their members.

There are three very important points in regard to Section 7. First, there is no discretion involved; the Secretary of Health and Human Services must make this assistance available provided an acceptable plan is submitted. Second, there is explicit provision for funding tribal government staff, without ties to social or welfare programs or any other federal grant program. Third, it requires tribal government to plan for the improvement of tribal social and economic self-sufficiency in its own terms.

We believe that the mechanism provided by Section 7 is an important means of transferring responsibilities and authorities to tribal governments. It heralds a turn-away from the paternalism and dependency of the past by establishing a means of staffing and supporting tribal governments so that tribes can become economically self-sufficient.

We strongly support S.1088 and believe that its passage by Congress this year is essential. S.1088 must be viewed as an integral and vital component of a tribal economic development policy which, unlike so many failures of the past, places primary emphasis on the role of strong and stable tribal governments.

We are deeply concerned that there has been no forward movement of this bill since it was favorably reported by this Committee last May. It has not been brought to the Senate floor for consideration, and has yet to be introduced in the House. There is

now a very real danger that this settlement legislation will not receive a fair hearing on the Senate floor or in the House unless steps are taken now to get it back on track. This bill is far too important to simply die without being brought up for vote, and we urge all members of this Committee to provide their active support to help assure that this does not happen.

NEED FOR EQUITABLE TAX TREATMENT OF TRIBAL GOVERNMENTS

A major obstacle confronting tribal governments attempting to generate revenues is that they do not currently have a number of federal tax advantages enjoyed by every other government in the United States, including state, county and municipal governments. We therefore strongly support the Indian Tribal Governmental Tax Status Act, currently pending in both Houses of Congress (S.1296; H.R.7781), which would remedy this inequitable situation. We support the bill, first, as a matter of equity; second, because the bill would strengthen tribal economic self-sufficiency by strengthening the abilities of tribal governments to provide public goods and services for their people; and third, because the bill recognizes the appropriate role of tribal governments.

The bill would remedy the effects of a series of Internal Revenue Service rulings issued during the late 1960's and early 1970's which held that, as Indian tribes are neither states nor political subdivisions of states, they are not eligible for certain benefits given states and their political subdivisions under the Internal Revenue Code. As a result, revenue raising and saving mechanisms available to and commonly used by other governments are foreclosed to Indian tribal governments. This discriminatory treatment is unfortunate inasmuch as tribal governments are faced with the task of bringing their people, among the poorest in the nation, into economic prosperity. This task is made more difficult, at least in part, because tribal governments are not given the same benefits as other governments in the Internal Revenue Code.

The Act would:

- allow deductions from federal income taxes for charitable contributions to Indian tribes;
- allow deductions from federal income taxes for taxes paid to tribal governments;
- exempt from federal income taxes interest paid on certain bonds issued by tribal governments;
- allow deductions from federal income taxes for contributions to tribal political campaigns;
- exempt tribal governments from certain excise taxes including those on special fuels, manufacturers excise taxes, highway use taxes and communications excise tax, and
- allow tribal governments to offer tax-exempt annuities to certain employees.

It should be noted that although the immediate revenue impact of the bill would be negative the total effect on the federal budget could be positive. In 1978, a House Ways and Means Committee report estimated and the Treasury agreed that the bill would reduce federal tax revenues by less than $5 million. This in itself is an extremely small amount. But more significant is the savings that could accrue to the federal Treasury if this bill is passed. Public projects that now are subsidized to a great extent by direct federal assistance would be opened to private financing on the same basis as state, county and municipal projects.

We are greatly concerned that since the Tax Status Act was introduced in Congress last year, there has been no movement of the bill in either chamber. There is now a real danger that it will die in Congress this year, as it has over the past three congressional sessions. This would be a tremendous setback to tribes in their attempts to achieve economic self-sufficiency if allowed to happen and we respectfully urge all Select Committee members to actively support this bill.

NEED FOR DOI AUTHORITY TO APPROVE ALTERNATIVE MINERALS AGREEMENTS

Given the vast wealth of mineral resourceson Indian lands, it would appear that those tribes with such minerals could become economically self-sufficient by using the development of their minerals as a base for developing sound, stable economies. Sadly, this has not been the case. Although energy production has taken place on Indian reservations for many years, and has been particularly significant over the past three decades, it has resulted in very little economic return or monetary benefit to the producing reservations. These tribes, lacking the in-house management capability and the financial resources to obtain their own expertise to evaluate, plan and negotiate their own agreements with minerals companies, have had to rely upon the Bureau of Indian Affairs (BIA) as their trustee to negotiate on their behalf. All too often, the BIA-negotiated agreements have turned out to be very detrimental to the economic and other interests of the respective tribes.

The benefits from minerals production on Indian reservations have therefore flowed off the reservations. The royalties that the tribes have received have not been adequate to meet the needs of tribal governments, and the tribes continue to remain among the poorest of America's poor. Unemployment rates, even among the energy resource tribes, are several times above the national average.

Realizing that they were not receiving long-term benefits from development of their depletable mineral resources, a number of tribes during the 1970's decided to take matters into their own hands, and go directly to the bargaining table themselves to engage in active negotiation with minerals companies. Instead of the traditional BIA approach of selling leases with cash bonus and fixed royalty rates, tribes have begun to explore innovative approaches, such as participation in joint ventures, production sharing and service contracts enabling them to maintain full or partial ownership and to have a role in management decisions. Since 1975 at least a half dozen such agreements have been negotiated by the tribes. Yet, in 1980 the Department of Interior (DOI) itself raised questions about its authority to approve such agreements, particularly for oil and gas agreements that were not sold under public auction.

The inability of the DOI to approve alternative minerals agreements negotiated by the tribes is a major obstacle to tribal economic development. There is currently a bill pending before this Committee, S.1894, which would remove any questions about the Department's authority in this area. Simply stated, it would provide the Secretary the authority to approve minerals agreements, whether they are leases, joint venture arrangements, or any other forms of agreements provided that he does not make a finding that such agreements are not in the best interests of the respective tribe.

During hearings held on S.1894 by this Committee, a number of tribal leaders expressed concerns over specific parts of the bill, and recommended changes to address these concerns. We urge you to take these recommendations into account, and to favorably report a bill responsive to them. We believe that a unanimous vote by this Committee is important to enhancing the bill's prospects before the full Senate.

This must be done in the very near future, since time is running out for consideration by the 97th Congress. For the same reason, we are most anxious for a companion bill to be introduced as soon as possible in the House.

NEED FOR REGULATORY REFORM IN NATURAL RESOURCE MANAGEMENT AND DEVELOPMENT

In conjunction with our discussion on the Department of Interior's lack of authority to approve alternative minerals agreements we would like to briefly address the regulatory framework under which DOI manages tribal natural resources. Regulatory reform is needed throughout the federal government to correct the deficiencies in the treatment of Indian tribes. Very few rules currently on the books provide the proper mechanism for tribal consultation and concurrence in federal programs. In the case of BIA regulations, steps should be taken to put the tribal government in the lead role, with the BIA providing technical support and trust protections.

The unfortunate fact is that federal policies designed to provide tribal governments with more say in their own affairs have been undermined by bureaucratic inertia, poor administration and controversy. For example, even the Indian Self-Determination Act, which was intended to turn the control and administration of Indian programs over to tribal governments, is administered by over 100 pages of BIA regulations. These rules maintain heavy federal involvement and a perpetuated perception of tribal dependency.

Unfortunately, our experience has shown that reform of BIA's regulatory framework is a very long and cumbersome process. In 1977, the Bureau proposed revising its Indian mineral development regulations but they never were promulgated. In 1980, over three years later, the regulations were re-proposed but again were not promulgated. When and if the Bureau does promulgate new regulations, we believe that they must include provisions for tribal participation and control in minerals development and management, provided that the individual tribes desire and have the capabilities to assume these responsibilities. The challenge for BIA is to develop a regulatory framework that promotes tribal involvement in the process without the Bureau losing the

regulatory capability to fulfill its trust responsibility to assure that the tribes truly benefit from minerals development.

To meet this challenge -- to assure that the Bureau fully protects the interests of those tribes which have not fully developed their own minerals management capabilities while at the same time not unduly burdening those tribes which have these capabilities -- the Bureau must develop a regulatory framework that incorporates the following two philosophies.

First, if a tribe demonstrates that it has performed a given task or tasks required by BIA regulations, the Bureau should substitute the tribe's efforts for its own. This would apply, for example, in such areas as pre-sale, economic and environmental assessments, development of environmental and production stipulations, as well as lease site production management which is now being carried out by the Department's Minerals Management Service.

Secondly, the respective tribe should be offered a consultation and concurrence role in major decisions made by the Bureau under its regulations. If the tribe does not have the capability to exercise an option to concur, it should be offered the option to waive the concurrence requirement. However, in all cases the BIA should consult with the tribes prior to making substantive decisions under its regulations.

The CERT tribes have not at this time examined the full range of federal regulations affecting Indian lands, but we feel that the philosophies we have expressed here need to be incorporated generally in regulations which affect tribal affairs. The key here is true recognition of tribal governments in federal programs and regulations, and the opportunity for real participation by tribal governments.

THE NEED FOR TRIBAL RESOURCE MARKETING ASSISTANCE

The member tribes of CERT have a substantial amount of energy resources which potentially could provide a base for the development of stable reservation economies. We have found, however, that while many of the tribes are interested in developing their resources they are often unsure of how to proceed.

At the same time, there is not an established and convenient method for potential resource customers to become familiar with the resources of Indian tribes.

We strongly believe that support is needed to assist tribes in obtaining information that they need regarding the potential marketability of their resources, to help them come into contact with appropriate potential markets and to provide a clearinghouse of information regarding agreements which have been made among buyers and sellers of comparable resources. We believe that assistance in the development of such marketing services would be a valuable tool to enable the tribes to effectively participate in the private sector.

NEED FOR AN IMPROVED SYSTEM OF ASSESSING ECONOMIC CONDITIONS OF RESERVATIONS

It is extremely difficult at this time to measure the impacts of economic development policies due to the lack of a systematic means to measure the economic conditions on individual reservations. For this reason, in recent years some development specialists have proposed that it would be useful to have leading economic indicators for Indian reservations analogous to the national accounts of the United States. In place of Gross National Product, for instance, one could have Gross Reservation Product (GRP).

Such a system of economic indicators would also allow us to record progress in achieving economic self-sufficiency. Baseline data is needed so that both tribal governments and the federal government can measure changes in reservation economies.

We believe that the development of such data and indicators can serve to provide a framework against which the effects of economic development policies can be assessed where they really count -- at the reservation level.

THE ROLE OF ENTERPRISE ZONES IN INDIAN ECONOMIC DEVELOPMENT

We would like to briefly discuss the enterprise zone concept which has received so much interest over the last two years. The basic premise of the enterprise zone concept is that with appropriate economic incentives and reduction of regulatory impediments in specifically targetted economically depressed areas, a climate will be created in these areas which will induce private sector investment. Legislation implementing this concept was introduced in Congress in 1980 and 1981, and the Administration last month introduced its version of this concept.

The Administration's proposal, as embodied in S.2298 now before the Congress, provides for the Secretary of Housing and Urban Development to designate up to 25 targetted areas per year over the next three years as enterprise zones. Such designation would entitle businesses locating in these zones to special federal tax incentives, including certain tax credits and elimination of federal capital gains taxes. In addition, federal regulatory bodies would be given discretionary authority to relax or eliminate certain non-statutory regulatory requirements within enterprise zones, upon the request of the respective local governing bodies.

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We are pleased that Indian reservations are recognized in S.2298 to be eligible for enterprise zone designations. The incentives provided by such designation may well induce certain industries to locate on reservations, and thus to contribute to long-term economic advancement.

At the same time we must caution against any notion that enterprise zones can by themselves be viewed as a major solution to the economic problems on reservations. To begin with, since only 75 areas will be designated over the next three areas, the competition for designation among states, municipalities and tribes will be very intense, and it is highly likely that no more than a small handful of reservations will win out in the competition. But beyond this problem, there are more fundamental obstacles to tribal economic development than cannot be remedied with enterprise zone designation alone.

The enterprise zone concept does not address the need for physical infrastructure on reservations as a precondition to private sector investment. The sad fact of economic life on the reservations is that there is an almost total lack of infrastructure to support economic enterprises, including adequate roads, sewers and public utilities. On Indian reservations, however, enterprise zone incentives are not likely to attract major investment unless the tribes can demonstrate that an adequate infrastructure is in place or that they are taking steps to build the needed infrastructure. For this reason we believe that it would be a major mistake to believe that private sector incentives by themselves will solve the problem of establishing lasting stable economies on Indian reservations.

We believe that enterprise zones can work on certain reservations, provided that the other necessary factors for economic development are in place. However, the enterprise zone concept must be viewed as only a part of a total tribal economic development policy and cannot work in a vacuum without such policies.

In conclusion, we are supportive of the enterprise zone concept, and are pleased that Indian reservations are to be included. At the same time the limited capabilities of this concept must be recognized, and other forms of federal economic development assistance must be provided to the tribes. The next witnesses at this hearing will discuss certain of these additional needs, including the key need for assistance to put an adequate physical infrastructure in place on the reservations.

We believe that the national discussion over enterprise zones serves to highlight the need for special measures needed to stimulate private sector investment in particularly economically depressed areas. We hope that the dialogue that has begun will expand and focus on the underdevelopment of reservation economies, and will culminate in the establishment of a comprehensive national policy to support Indian economic development.

STATEMENT OF A PANEL CONSISTING OF PHILLIP MARTIN, PRESIDENT OF THE NATIONAL TRIBAL CHAIRMAN'S ASSOCIATION AND CHIEF, MISSISSIPPI CHOCTAW INDIAN TRIBE; EARNEST TIGER, ECONOMIC DEVELOPMENT SPECIALIST, MISSISSIPPI CHOCTAW INDIAN TRIBE; AND CHARLES TRIMBLE, PRESIDENT, CHARLES TRIMBLE COMPANY AND MEMBER, OGLALA SIOUX INDIAN TRIBE

Senator COHEN. Mr. Martin, if you would proceed and, if at all possible, if you could summarize your testimony, your full statement will be entered in the record. I suspect the bells are going to be ringing again very shortly and we will call a recess again, so I would like to get as much of the essence of your testimony as is possible.

Mr. MARTIN. Thank you, Mr. Chairman. Yes, we plan to make it as brief as possible. The subject that we are talking about is hard to summarize in a short time, but we will do the best we can.

I am here representing the National Tribal Chairman's Association as well as other tribes having a need for economic development. Also with me is Mr. Earnest Tiger, who is on my staff as an economic development specialist, and Mr. Chuck Trimble, who is providing us technical assistance, to NTCA. These two gentlemen are very knowledgeable on economic development, so as we progress they will have something to say as well.

We want to get down to the business of our testimony but before I do I would like to say that I am supporting all these people who made their statement, NCAI, and CERT, because we all agreed that we would make this a presentation and show of unity that we are all together and we are in need of assistance to develop our communities and our people, and one of the ways of doing that is economic development.

We are very much concerned with the short-term effects that the Federal budget cuts that are now being made are having on Indian tribes throughout the country. The high unemployment on Indian reservations has a direct correlation with the Federal budget cuts, because the tribes, by and large, depend on the Federal Government through the Federal programs as well as contracts that they are able to negotiate. So, with all this cutback we are having some real problems.

One of the ways to get out of that is to develop an alternative source of income and that is what we are very much interested in today.

Now, the administration and others have come up with the idea that the tribe needs to look to the private sector. Well, you know, I have heard that for about a year now and I have been wondering about the private sector. There is a wide gap between tribal government and the private sector. This is where the need is greatest, for the Government and Congress to help us to bridge this gap in working with the private sector.

The private sector is not—well, they are not a charity organization. They are a business organization and very cold, too. The bottom line is profit. They are not going to talk to you unless you are able to contribute to that profit and I think that that is where we may fall short. Some of us may not be ready to negotiate with the private sector be-

cause of a lack of infrastructure or lack of financing that is needed to do this.

I would venture to bet that if you took a survey probably 49 out of 50 tribal leaders are not acquainted with chief executive officers of the large corporations, so that is just to show you that a lot of work has to be done to establish this relationship that is needed.

Some of us do have experience with corporations and we are going to get into that later.

In connection with trying to do something in the area of economic development, we have asked or requested Secretary Watt—he met with the National Tribal Chairman's Association over almost 2 months wherein we raised the question of economic development; what can be done; and our suggestion to him was that we would suggest that he set up a task force of knowledgeable tribal leaders as well as Indian economists, people who have knowledge about tribal economic development, to work with us and he agreed to do that. But, to date there is no such task force, however, we are encouraging him to do this because we need this kind of a springboard for this task force to make contact with financial institutions; make contact with large corporations; tell them what can be done so that the various tribes who are interested in doing business with the corporations could have a way of doing this.

So, we have not given up hope on that yet. The wheels of the BIA move slowly.

Senator COHEN. What you are saying is you have to have some assistance to help point the private sector toward the assets, in the best sense of the word, of the Indian tribes across the country, not out of a sense of charity, because corporations do not act out of charity, as you point out.

Mr. MARTIN. That is right.

Senator COHEN. But out of their own selfish interests, they will see this as a business venture under which they will profit as well as you.

Mr. MARTIN. You also have to watch out for the unscrupulous businessmen as well. But we should not wait for the private sector to come to us. We should go to them. We should be able to say: Here. We think we can do this.

We have an industrial park. We have some financing. We can negotiate with you if you are willing to do business. And you can get some attention that way.

Senator COHEN. Do you think that the tribal managers are capable of carrying those negotiations out now without further assistance?

Mr. MARTIN. I believe we have the expertise and the ability to negotiate with anybody.

Senator COHEN. Right now?

Mr. MARTIN. Yes. If we had the resources to negotiate with. We have the manpower and the brainpower to do that. Sometimes we need financial backing to do that.

So, we are concerned with infrastructure. We are concerned with S. 1088. We are concerned with defense, the SBA program, BIA strategy, the Indian Finance Act, and the industrial bonds. So, I could attempt to talk on all of these but I am not going to. I am going to ask my colleagues here to make statements on this. I am going to call on Chuck to talk about the infrastructure and the need for a

relationship with the Department of Defense. Chuck, would you do that?

Mr. TRIMBLE. Mr. Chairman, my corporation recently completed a study on the applicability of enterprise zones to Indian country and we found that a corporation—we had some discussions with corporations on how they might perceive enterprise zones on reservations; whether it would be marketable within the private sector. What they said, basically, was that tax incentives, regulatory relief incentives, are nice. But they are somewhere down the line in the priorities that they look for in deciding to invest or relocate anywhere, and the principal ones were nearness to market, quality labor force, infrastructure, many things that we are lacking.

Senator COHEN. Transportation, rail costs, all of those factors are involved. I know in the State of Maine we have the same problem.

Mr. TRIMBLE. Right.

Senator COHEN. How do we attract the private sector to expand? They point to us as being the last in the line, high rail costs, feedstocks, et cetera. So, I assume that you have that basic problem as well.

Mr. TRIMBLE. You know, in the few remaining Federal assistance programs on which we can depend for any kind of direct assistance, we find most of them are clearly biased toward natural resource development, and we are not really decrying this because that is an area of high potential for the tribes, but there really is not any assistance available to assist those tribes that do not have abundant resources or those tribes that may wish to diversify for industrial development, to develop their industrial potential.

We felt that with the loss and the unlikely restoration of significant funding assistance programs, Federal assistance to tribes in their economic development efforts, could come from a policy of preferred access to Federal contracting and procurement, and we have vehicles at this time, including Public Law 638.

But it occurs to us because of a few recent happenings, that there might be some possibilities in the area of defense contracting, and I have been informed that you are one of the experts in the Senate in the area of defense contracting.

Senator COHEN. Well, we could debate that. I was interested when you said you were going to tell me how we can have a better relationship with the Defense Department. I have been trying to figure out for 4 years now, and it eludes me all the time. But tell me what you have in mind.

Mr. TRIMBLE. OK. We were informed that between now and 1987 the administration proposed to spend something in the range of $1.5 trillion for the defense buildup in the country and we are also aware that there is concern in this country and in the Congress that the American defense industrial base cannot meet those defense buildup requirements and that this might even go so far as to require procurement from overseas suppliers.

We are aware of Representative Blanchard's bill, the Defense Industrial Base Revitalization Act, in the House and there is probably a measure or so in the Senate calling for that type of a buildup in the sophistication of our defense industrial base.

Recently, of course, another development has been the provision in the Department of Defense Appropriations Act for 1982, fiscal 1982,

an Indian preference provision, in that the Defense Department is now studying it, but we do not have any great expectations of any very creative policy coming out of that study, and as I understand that, they were quite reluctant to implement any kind of a buy-Indian provision. But it opens the door for some real potential, I think.

I would like to say right off the bat that our idea of promoting greater Indian industrial participation in the defense procurement arena does not at all indicate that we are moving to turn the defense budget into a social welfare program. Someone said turning guns to butter or something like that.

Senator COHEN. It has been said earlier today that there is an inherent bias against small business in terms of the private sector dealing with the Government; the contracts tend to go to the big business. So, it is not social welfare that we have been looking for. Many of us have supported, over the years, small business set asides to try and say, "Wait a minute. We should not give it all to the big companies. We ought to spread it around somewhat because we have got people all across the country who are small businesses who can, in fact, compete and produce and do it well," and this has not been regarded as social welfare but, rather, some measure of equity in trying to share in the production of the great assets that we have in this country. So, I agree with you. It should not be approached on the basis that we want to have an Indian set-aside as such, because it is going to replace the cuts in the ANA program, but rather, we ought to address this saying, "Here are some people who want to put together some joint enterprises that can, in fact, produce assets to this country." That should be the spirit in which we do that.

Mr. TRIMBLE. Yes. We would like to encourage the Congress to offer their support, or their urging, to the Defense Department to be a little more creative. I have met with the heads of the Office of Small and Disadvantaged Business Utilization in the Pentagon and also with the Office of Economic Adjustment. They are good people but they really do not know Indian country. Their first idea of defense contracting in Indian country was what kind of trinkets can we buy for our PX's, that type of thing. They do not realize that we can probably make anything from trinkets to tanks.

Senator COHEN. Well, I must say that sometimes the ignorance extends to Congress. I can recall the first time I went to visit Bendix out in the western part of the country. I thought they only made washing machines and I found that they are one of our biggest defense contractors. So, it cuts both ways, too. Those of us who are not fully informed on what some of the companies actually produce. But, you are right, we have to have new attitudes.

Mr. TRIMBLE. Our statement says that pretty well. We would like some preferred access or equitable access to that area of industry in this country.

Mr. MARTIN. Our statement pertains to immediate needs. One of the things that is available or one of the agencies that is available is the Small Business Administration. We have a lot of problems with it. I would like for Mr. Tiger to elaborate just a little bit on it.

Mr. TIGER. Mr. Chairman, first of all, I would like to say that it is our understanding that Senator Mark Andrews of this committee is working to exempt Indian defense contractors from certain time re-

strictions inherent in the Small Business Administration 8(a) program. For that, we commend the Senator.

The National Tribal Chairman's Association is very much in support of attempting to shed some light on the Small Business Administration's shortcomings in regard to Indian tribes. Some of the programs that are primarily designed for minority, disadvantaged, social and economic disadvantaged, do not allow the participation of Indian tribal enterprises in their programs, primarily from the standpoint that tribes have to go through the State chartering process. Of primary significance to tribes, the 8(a) program, the program for the Small Business Investment Act—excuse me for just a second.

Senator COHEN. If you want to refer to your notes, take your time.

Mr. MARTIN. It has not worked for us, put it that way.

Senator COHEN. That is the bottom line.

Mr. MARTIN. Yes.

Mr. TIGER. The bottom line is that by going through the State, the tribes give up their jurisdiction. And by refusing to go through the States they cannot be recognized. There are several programs that could be of benefit to tribes and since tribes refuse to charter through the State they are unable to receive assistance through the 8(a) program, through the setting up of programs that are significant in the way of financing, and these areas we would need the support and would encourage the support of the Congress.

Senator COHEN. I am just inquiring here. About a year ago we had a fairly controversial land claim settlement in the State of Maine in which it included a unique provision of the law which I think is going to be helpful in dealing with the problems that you have suggested. Namely, on the one hand, you cannot qualify for SBA programs unless you get chartered. If you get chartered you lose some of your jurisdiction.

In Maine we have set up a separate, independent status so that they are treated along the lines of a municipality in the ownership of the land, as such. So, that is the way we are trying to deal with that problem but I think Maine is one of the first, if not the only State, that has tried this to date. It is a unique provision in the law that we perhaps ought to look at in terms of your statement today, about its relationship with the SBA. But that is a good point you make. You are caught in between. It is the Catch-22 there.

Mr. TIGER. The other real barrier is the fact that those tribal enterprises that are presently in the 8(a) program are being graduated from the program and for individual tribal businesses, for individuals, the SBA is not allowing any new applicants. They have a problem with ownership and control and these are issues that are very crucial to tribes and tribal members in being able to get in the mainstream.

Mr. MARTIN. Thank you. Also, I am going to call on Chuck to talk a little bit about the BIA strategy on economic development.

Mr. TRIMBLE. Mr. Chairman, it might be well if I just read this. It is only a few paragraphs and I think it says it much better than I can say it.

Senator COHEN. All right.

Mr. TRIMBLE. We would like to comment on the Bureau of Indian Affairs' economic development strategy which is proposed for fiscal 1983 and beyond. This strategy was devised over the past year to final-

ly meet the longstanding demand of the House Appropriations Committee. We commend this administration for finally giving some direction to their economic development assistance efforts but we must note that the funding levels to implement this strategy are inadequate and the time is late.

The BIA strategy requests appropriation of $10 million to provide conditional grants to tribal projects for the development of natural resources, the encouragement of private sector involvement and investment, and the promotion of sound business principles. Restricting the proposed economic development grant program to natural resource development projects eliminates a great majority of tribes and does not address the need for multifaceted economic development efforts desired by most tribes, even those with abundant natural resources.

According to the Assistant Secretary, the objectives of the program will be accomplished through the extension of seed grants from the $10 million fund, reducing internal bureaucratic obstacles and barriers, taking the lead across the Federal structure, in coordinating economic development assistance, and searching out and stimulating opportunities for tribes.

We are aware that the BIA strategy totally reflects the administration's policy of fiscal austerity. We are aware that the Assistant Secretary's hands are pretty well strapped in this matter; for he knows, as we do, that $10 million is totally inadequate to provide the assistance our tribes need to pursue their goals of economic self-sufficiency.

The burden of dependency is staggering and shrinks that amount to a very ineffective level. An amount more significant, effectively administered, would mean a true investment in the future of Indian country and in this Nation as a whole. The strategy requests an additional appropriation of $5 million to provide small tribes a baseline of governmental support, presumably to enhance their efforts to attract industry.

The Bureau also proposes to seek from Congress new authorization for the Indian Business Development Fund and the loan guarantee program embodied in 25 U.S.C. 451, the Indian Finance Act.

We commend the Bureau's plan to seek reauthorization, reinfusion of the Indian Finance Act, but there is massive evidence to suggest that the BIA or other Federal agencies are not efficient lending entities. By their very nature they do not function in banking relationships and they tend to subsidize inefficiencies. As such, a great many Federal programs which are dependent upon the appropriations process for funding, suffer themselves from inconsistencies which affect their ability to promote, administer, and monitor a portfolio of loans and loan guarantees.

The Indian Financing Act was enacted in recognition of the private capital markets and accessibility to Indian enterprises. That situation still exists and we direly need the Indian Finance Act. There must be no question about that. But the BIA must be made to put into place an effective mechanism to administer that program.

Senator COHEN. Thank you very much. I have a question. I guess Mr. Tiger, this should be directed to you. As I understand it, the Mississippi Choctaw Tribe has taken a major step in trying to encourage a joint venture in building a new industrial park and you had the

issuance of revenue bonds. Tell me a little bit about that. How does that work?

Mr. TIGER. Mr. Chairman, the process that had to be utilized to finance the project was, the tribe had, through a working relationship with the city of Philadelphia, Miss.—the city was the issuing authority. The tribe, based on the Internal Revenue Codes, is unable to issue bonds. Therefore, we had to seek a municipality or county that was able to do that and able to do that in a favorable manner.

The city of Philadelphia, Miss., agreed to become the issuing authority. The State sanctioned the project through its State economic development council and the real issue is that the corporation that we have an operating agreement with agreed to being the guarantor for the bond issue. Since the tribe could not acquire a bond rating, the corporation agreed to guarantee the bonds. Therefore, with the corporation guaranteeing the bonds and the city being the issuing authority, the project was able to proceed.

But if the Tribal Tax Status Act were applied, that would enable tribes to issue industrial revenue bonds to develop.

Senator COHEN. How is the project working?

Mr. TIGER. The project at this point has 219 employees. It has been open since August 17. By midsummer we plan to have 350 people working. It has a 120,000-square-foot facility, 21 acres leased to the city of Philadelphia, and many tribes see this as a barrier because they have to lease the land which means the possibility of waiving sovereign immunity to a municipality or a county, which puts them back into a relationship with the State, and in many areas that has some serious drawbacks and consequences. But it is proceeding and we have created jobs and we are making money.

Senator COHEN. Very good.

Mr. MARTIN. Just one more thing. I heard this morning that some of you are concerned whether tribes are able to do business with the private sector. I said yes. But the tribes must be ready. The leadership, the council, the community, must be ready to take risk to do this and that. I say that the tribes can do that and I do not think we should be questioned whether we can or cannot do it or whether we are going to be successful or whether we are going to fail, because failure is not unique to Indian tribes. Failure occurs in a lot of businesses in this country. Many people are out of business today, big companies that one time were successful. They are out of business because of the economy.

So, we cannot just say that we are not able to do that. I say we can do it. We just need the resources that would make it possible to negotiate.

Three years ago, as an example, we had very few private sector jobs on the Choctaw Reservation. Today we have over 500 jobs that are non-Federal jobs that we have created because we were able to get assistance from EDA and BIA and we even took some risk, too. We put our own money into the pot to show that we mean business, and we are successful.

We have two major blue-chip industries on the reservation, General Motors and American Greeting Card, and we figure if they fail everybody else is going to fail anyway, so I think we are on the right track and others can do the same.

Senator COHEN. Gentlemen, thank you very much for appearing. I would apologize for not encouraging you to read your testimony. I

know that it is difficult to try and summarize something as complex and something as frustrating as this. I think that part of the difficulty is how do you confine your frustration to words, which come to you at the spur of the moment. I know that is a very, very difficult thing to do.

Perhaps you will appreciate the fact that your full statements will be in the record as far as building a case for the things that you wanted to say. But, for me, it is very helpful, even this unstructured hearing as such, just to get your spontaneous sense of what is wrong with the way we are proceeding.

[The statement and brouchure follow. Testimony resumes on p. 86.]

PREPARED STATEMENT OF PHILLIP MARTIN, PRESIDENT, NATIONAL TRIBAL CHAIRMAN'S ASSOCIATION AND CHIEF, MISSISSIPPI BAND OF CHOCTAW INDIANS

My name is Phillip Martin, and I am the elected chief of the Mississippi Band of Choctaw Indians and President of the National Tribal Chairmen's Association. With me are Ernest Tiger and Charles Trimble who will lend technical support should you have any questions.

I would like to commend the preceeding witnesses from the National Congress of American Indians and the Council of Energy Resource Tribes, and add my wholehearted endorsement of their statements.

Mr. Chairman and distinguished members of the Senate Select Committee on Indian Affairs: On behalf of the elected principal executives of the more than 150 federally-recognized Tribes that comprise the National Tribal Chairmen's Association, I commend you for holding these hearings on Indian Economic Development which is a critical issue in these times of immense challenge to Indian country and to all America.

The National Tribal Chairmen's Association would like to discuss with you the economic issues of most immediate impact on our tribes, namely:

Infrastructural development on our reservations; greater access of our Indian industries to defense contracting and procurement opportunities to stimulate reservation development; and the proposed economic development strategy of the Bureau of Indian Affairs for fiscal year 1983 and beyond.

We are constantly reminded by our federal trustee that we must seek financial investment and industrial relocation for reservation development from the private sector, because of the present national policy of federal budget cutbacks and the shirt of responsibility from the federal level to local governments. Indeed, the proposed enterprise zone concept—the Administration's sole initiative to offer relief to the economically-distressed areas—is designed precisely to attract private sector investment and involvement to hard-hit areas, including Indian reservations. Yet, a recent study on the applicability of enterprise zones to Indian country revealed that any incentives offered by tax or regulatory relief are largely negated by the limited infrastructural attributes on most Indian reservations.

Many ideas have surfaced within recent months concerning relationships between Indian tribes and the private sector. While the concept is good, some attention must be focused on the reality of bringing Indian tribes and private industry together for mutual benefit. If tribal leadership were surveyed today, forty-nine out of fifty tribal leaders would not know a chief officer of a major corporation. Indian country needs very desperately to be joined in a beneficial relationship with the private sector, but this will not happen without some means of communicating with the private sector. This will not happen if tribal governments do not possess the financial resources by which to enter into economic development ventures with private industry. Technical assistance, loans, and loan guarantees are needed if tribal governments are to develop economic projects on a self-sustaining basis. Bridging the gap between Indian tribes and the private sector cannot occur through the proposed enterprise zone legislation when only three or four tribes might possibly benefit from that concept.

Application for enterprise zone status challenges local governments to offer infrastructural commitments for municipal services and physical improvements within the distressed area. Impacted as our tribal governments are by the loss of federal assistance, few tribes could even provide a guarantee against deterioration of local municipal services, let alone the improvement of them. This is why the NTCA so strongly supports the provisions of S. 1088. That legislation, including the Section 7 provision for an additional $50,000,000 for maintenance

and improvement of tribal governmental services, is essential to any hope of tribal self-sufficiency in the future.

Infrastructural development assistance is needed, and we ask that you view such assistance as an investment in the future of Indian tribes as self-sufficient entities in the American future.

Indian tribal governments do not have a tax base from which to obtain revenues to support and maintain their social and economic structures; and few tribes currently have sufficient enterprise development from which to support essential tribal governmental functions and services. An examination of the methods by which states, counties, and municipalities support governmental services, physical development, maintenance, and capital improvement reveals a wide range of revenue sources. Without a tax base, Indian tribes do not have these options. Tribes are unable to take advantage of general obligation bonding because of IRS rulings. Consequently, we have few resources from which to support the development and maintenance of reservation infrastructure. This situation again points up the need for the American Indian Tribal Government Tax Status Act embodied in S. 1298, and that is why the National Tribal Chairmen's Association supports that legislation.

There are few remaining federal assistance programs on which we can depend to assist us in our efforts toward economic self-sufficiency; and these programs and strategies are clearly biased toward natural resource development. We do not decry that assistance to those tribes with natural resources. However, the tribes that do not possess significant natural resources feel at a great disadvantage to develop their industrial and business potential. Even tribes with significant extractive resources of energy and minerals desire to expand their employment opportunities and to retain their earnings on the reservation through industrial diversification.

Through the 1960's and 1970's, in the era of relative affluence in federal economic development assistance, the opportunities for industrial development was largely lost to Indian country; and the bureaucracy administering those federal assistance programs must bear much of the blame. The private sector and the tribes themselves are not without blame in the general failure of the reservation industrial development. But we are now in different times, and industrial development for Indian tribes warrants a fresh review.

We do not mean to say that the federal programs for economic development were a complete waste. The much ridiculed EDA-financed industrial parks on reservations are now providing many tribes their only hope for development. Many of these industrial parks are now taking off now that tribes are gaining experience at marketing them in the private sector. The loss of this type of federal assistance for infrastructural development on reservations is seen by many tribal leaders as among the most devastating.

Tribal governments need assistance to overcome the impediments of isolation and underdevelopment in order to attract industry and private sector investment. With the loss and the unlikely restoration of significant funding assistance programs, federal assistance to tribes in their economic development efforts could come from a policy of preferred access for tribal industry in federal procurement and contracting. One such opportunity is in the challenge faced by the American defense industry to meet the Administration's defense build-up requirements over the next several years.

Between now and 1987, the Administration proposes to spend more than 1.5 trillion dollars in defense. Some economists project major problems in the ability of the U.S. defense industry to meet America's needs defined in the arms build-up proposals. The squeeze on domestic suppliers, it is projected, will send more defense procurement overseas, making the U.S. more dependent on foreign sources and more vulnerable.

There is also concern in the Congress over the U.S. industry's capability to meet the country's defense build-up requirements. This past February, Rep. James Blanchard of the House Committee on Banking, Finance and Urban Affairs, introduced the Defense Industrial Base Revitalization Act (H.R. 5540). That bill calls for a number of measures, several of which could directly apply to Indian economic development needs. First of all, that bill calls for federal assistance in the form of loans, loan guarantees for small and medium sized businesses. That type of assistance could greatly enhance the capability of Indian industry to compete in the defense contracting arena.

Secondly, the Blanchard proposal offers provisions for training and retraining workers for a quality defense industrial work force. The need for quality skilled

labor on the reservations is essential to the development of Indian-owned business and for the attraction of outside industry to the reservations.

Thirdly, the Blanchard proposal calls for greater domestic capability to produce critical and strategic materials, significant reserve of which are to be found on Indian reservations. The tribes with these resources could rightfully demand a greater opportunity for participation in the extraction and processing of such critical and strategic materials.

We hope that this type of legislation gains Congressional support, and that Indians are given special inclusion in the bills. Any initiative to secure equitable or preferred access for Indian industry to defense contracting, however, must not be looked upon as a movement to convert the national defense budget to social/welfare programs—to convert "guns to butter," as it were. Reservation industries have shown that they can deliver high quality goods on time and at budgeted costs. There are successful defense and non-defense contracts in reservation-based industries now; but all too few of them.

The idea of promoting greater Indian Industrial participation in defense procurement is relatively new. In the FY–1982 Department of Defense Appropriations Act, Sen. Peter Domenici included a provision for Indian preference in defense procurement. The Defense Department is in a quandry over how to apply Indian preference and is currently studying the matter. However, given the lack of experience and knowledge in Indian affairs, it is not likely that a creative policy will be forthcoming.

We urge the Administration to study this matter creatively, and we request the Congress to take necessary measures to assure equitable or preferred access of Indian industry to defense contracting and procurement.

It is our understanding that Sen. Mark Andrews of this Committee is working to exempt Indian defense contractors from certain time restrictions inherent in the Small Business Administration's 8(a) provisions. We commend the Senator, for this is the type of assistance needed to advance our industrial capacity on the reservations.

We would also like to focus this Committee's attention on other issues related to the Small Business Administration. SBA administers a number of programs to assist small and, in particular, minority business firms. The programs administered by this agency are for the most part unavailable to Indian tribes, because Indian tribes operate under the jurisdiction of tribal Constitutions and bylaws, and are not chartered through state chartering processes, and SBA cites ownership and control as a major problem in providing assistance to tribal enterprises. The SBA's Small Business Set-aside Program (8(a)), Small Business Investment Company Program, and local development company program could provide many short-range benefits of a private sector nature to Indian tribal governments. However, tribal governments will not benefit through the SBA programs, unless there is Congressional involvement to amend regulations of the Small Business Act of 1958.

Finally, Mr. Chairman, we would like to comment on the Bureau of Indian Affairs' Economic Development Strategy which is proposed for FY–1983 and beyond. This strategy was devised over the past year to finally meet the long-standing demand of the House Appropriations Committee. We commend this Administration for finally giving some direction to their economic development assistance efforts; but we must note that the funding levels to implement the strategy are inadequate and the time is late.

The BIA Strategy requests appropriation of $10,000,000 to provide conditional grants to tribal projects for the development of natural resources, the encouragement of private sector involvement and investment, and the promotion of sound business principles.

Restricting the proposed economic development grant program to natural resource development projects eliminates a great majority of tribes and does not address the need for multifaceted economic development efforts desired by most tribes—even those tribes with abundant natural resources. According to the Assistant Secretary, the objectives of the program will be accomplished through the extension of "seed grants" from the $10,000,000, reducing internal bureaucratic obstacles and barriers, taking the lead across the federal structure in coordinating economic development assistance, and searching out and stimulating opportunities for tribes.

Mr. Chairman, we are aware that the BIA strategy totally reflects the Administration's policy of fiscal austerity. We are aware that the Assisant Secretary's hands are strapped in this matter; for he knows, as we do, that $10,000,000

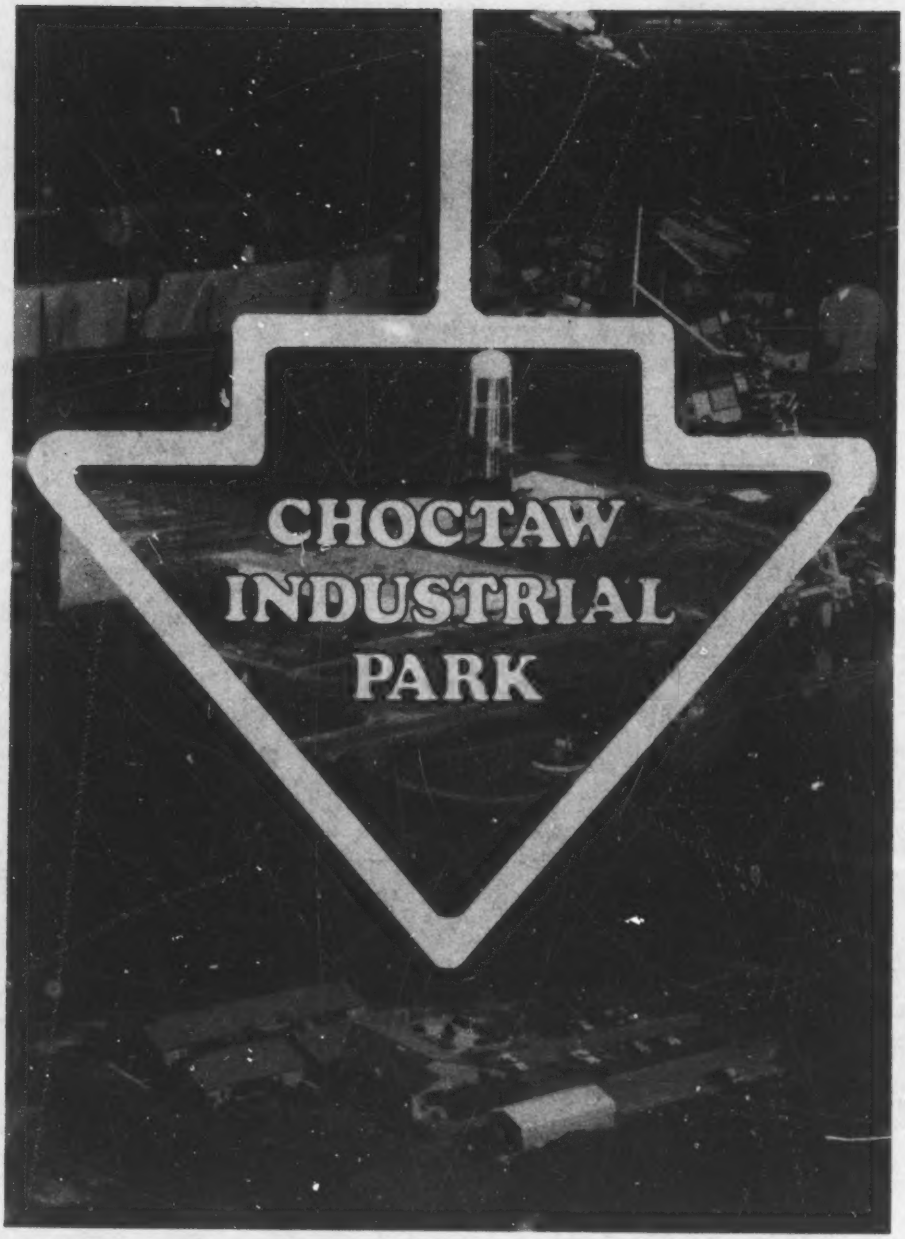
is totally inadequate to provide the assistance our tribes need to pursue their goals of economic self-sufficiency. The burden of dependency is staggering and shrinks that amount to an ineffective level. An amount more significant, effectively administered, would mean a true investment in the future of Indian country, and in the nation as a whole.

We therefore request a additional appropriation of $5,000,000 to provide "small tribes" a baseline of governmental support; presumably to enhance their efforts to attract industry. The Bureau also proposes to seek from Congress new authorization for the Indian Business Development Fund and loan-guarantee program embodied in 25 U.S.C. 451—The Indian Financing Act of 1974.

We commend the Bureau's plan to seek reauthorization and reinfusion of the Indian Financing Act, but there is massive evidence to suggest that the BIA or other federal agencies are not efficient lending entities. By their very nature, they do not function in a banking relationship, and they tend to subsidize inefficiencies. As such, a great many federal programs which are dependent upon the appropriations process for funding, suffer themselves from inconsistencies which affect their ability to promote, administer, and monitor a portfolio of loans and loan-guarantees. The Small Business Administration has recently extended its guarantee and authority to commercial banks because it could not efficiently make sound lending decisions. Thus, the Indian community cannot assess the impact of the proposed reauthorization legislation at this time to ascertain their assurances to make the Bureau's program efficient and functional.

The Indian Financing Act was enacted in recognition of the private capital markets' inaccessibility to reservation enterprises. That situation still exists, and we direly need the Indian Financing Act—there must be no question about that. But the BIA must be made to put into place an effective mechanism to administer that program.

Thank you for this opportunity to present this statement. With your permission, we would like to submit additional information for the record, at a later date.


CHOCTAW
INDUSTRIAL
PARK

PHILLIP MARTIN
Tribal Chief
Mississippi Band of Choctaw Indians

I welcome this opportunity to introduce you to the Mississippi Band of Choctaw Indians and our community. The information contained within this booklet will, hopefully, increase your understanding of our economic development objectives, and create a desire for you to visit the Choctaw reservation to gain firsthand knowledge of the business and industrial opportunities that are available. As you read this booklet, you will note that the Choctaw tribe can offer industrialists an excellent opportunity to sucessfully conduct business and increase profit margins through the manufacturing of products on the Choctaw reservation. The Choctaw tribe has an abundance of skilled and unskilled labor with a variety of excellent academic backgrounds. Manufacturers will find lower production costs and increased productivity in a market area of 12 million people in a 250 mile radius.

The Choctaw tribe offers industrialists a well-equipped 80-acre industrial park with available space to accomodate 20 acres of industrial expansion. Currently, the Choctaw Industrial Park is occupied by Chata Development Company, Chahta Wire Harness Enterprise, and Choctaw Greetings Enterprise. The industrial park is located in the sunbelt area, East Central Mississippi, of the United States in a beautiful rural area. Recreational facilities are plentiful, housing is comparatively inexpensive and the environment is of the highest quality in the country (good water, clean air and excellent climate). Jackson, Mississippi; Meridian, Mississippi; Birmingham, Alabama; New Orleans, Louisiana; Memphis Tennessee; and Atlanta, Georgia are accessible by the state highway system to the Choctaw Industrial Park within a reasonable drive time. Educational facilities, colleges and universities are numerous within our area.

We welcome newcomers and are eager to cooperate in the expansion of the country's economy and diversification provided by additional business enterprises. Twenty acres are available for industrial expansion in our Pearl River Industrial Park and 17.5 acres in our Louisville, Mississippi Industrial Park. Above all, Mississippi is a good place to live, raise a family, and a good place for new industry.

Consider the facts and imagine the ease of working with people who realize their success depends on your success and who are eager to work hand-in-hand with you. Consider the Mississippi Choctaw Industrial Park when you consider your next industrial move.

Sincerely yours,

Phillip Martin

Phillip Martin
Tribal Chief

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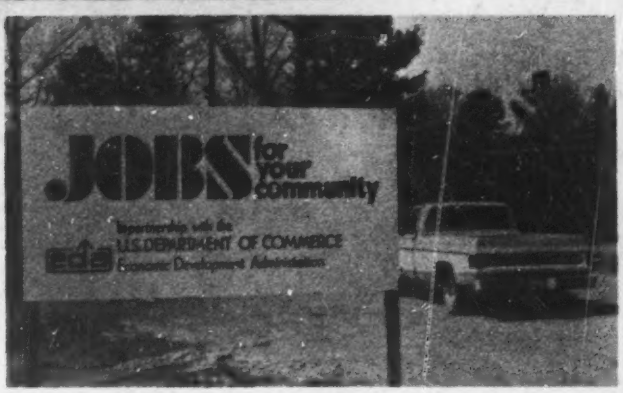


This brochure has been made possible through contributions from Chahta Development Co., Chahta Enterprise and Choctaw Greetings Enterprise.

March 1982

GENERAL INFORMATION

The Mississippi Band of Choctaw Indians was formally certified as a Tribe in 1945. Since that time the tribe has established a Constitution and Bylaws administered by a strong Tribal Council. This governing body has been successful in upgrading the standard of living for the Choctaw people and securing many programs which provide education, job placement, training, and a full range of social services for Choctaw people.

Tribal Headquarters

The Choctaw tribal government has made significant strides in the area of Community and Economic Development in the last 20 years. In 1963, the Mississippi Band of Choctaw Indians had one employee, and since that time the tribal government has developed into the largest employer in Neshoba County, Mississippi. The Tribal government directly employs 600 people to carry out government functions, and tribal sub-entities employ an additional 500 people in business and industry related activities. The Bureau of Indian Affairs and the Indian Health Service employs 424 people in carrying out health care and other supportive functions to the Mississippi Choctaw Tribe.

Choctaw High School

Choctaw Health Center

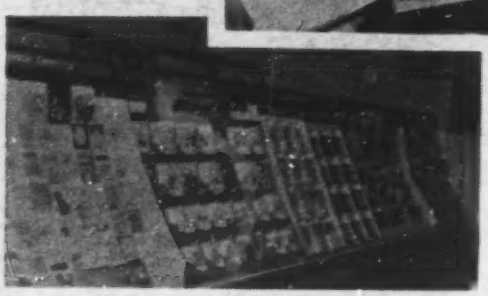
Reservation home constructed by Chata Development Co.

Prior to President Lyndon Johnson's "Great Society Era", the tribal physical infrastructure consisted of seven elementary schools in each of seven Choctaw communities. Today, the Choctaw Tribe has a modern, well equipped high school which serves over 300 students and a new 43 bed hospital. In 1965, the Choctaw Housing Authority was established in order to be able to take advantage of federal housing programs and today there are 900 housing units on the reservation. A community center has been built in each of the seven communities, providing recreational facilities, meeting rooms, and program offices. An 80-acre industrial park was constructed, attracting industry, that in a two year period (1979-1981), created over 500 jobs.

The tribe recently completed construction on a Day Care Facility to provide child care so that female members of the tribe could enter the labor force. A Manpower Training Center was constructed in 1980 to provide vocational training so that job skills could be upgraded to comply with industrial demands. A Tribal Office Complex and Tribal Council Hall was constructed between 1975 and 1978 to enable the tribal government to carry out its goal of self-sufficiency. A congregate housing project was constructed to provide safe and sanitary housing for elderly tribal members. The tribe is presently in the process of constructing a transportation maintenance center to provide maintenance for tribal, IHS, BIA and general public vehicles. The tribe's newly acquired transportation program is a bus system linking up six of the communities for the purpose of transporting tribal members to and from the industrial park for work purposes.

In 1971, the Choctaw tribe received funding from the Economic Development Administration for the construction of a 30-acre industrial park. Today, the industrial park is comprised of 80 acres and has approximately $1.2 million invested in physical improvements. The improvements include paved access road, paved and divided parking facilities, lighting, fencing, elevated water tank (250,000 gallons) and water connections, sewage facilities and landscape.

The tribal goal of economic self-sufficiency is now taking on a new meaning through the establishment of Chata Development Company, Chahta Enterprise, and Choctaw Greetings Enterprise. Chata Development Company is the oldest tribal business and was established in 1969. Tnis Company has concentrated its efforts on the construction of tribal infrastructure and has been responsible for constructing housing and community facilities in all of the Choctaw communities. Chata Development Company is in the process of constructing 100 new housing units throughout the Choctaw reservation and currently this enterprise has 60 employees. In 1979, Chahta Enterprise was established as a dedicated supplier of automotive instrument wiring to Packard Electric, a division of General Motors.



TOP:
A scene from Chata Enterprise where workers assemble wire harnesses for Chevy Trucks and Buick LeSabres.

CENTER:
Choctaw Greetings Enterprise employee programming information to American Greetings Corporation located in Cleveland, Ohio.

BOTTOM:
Choctaw Greetings Enterprise retail card shop located within the plant.

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Chahta Enterprise quality control assures General Motors of top quality products.

Chahta Enterprise employs 217 employees, and 75% of those employed are tribal members. The Choctaw tribe opened a new industry, August 17, 1981, Choctaw Greetings Enterprise, and is projected to employ 350 to 500 people. As of February, 1982, 200 people have been employed by this enterprise with 80% of those employed being tribal members. The new industry is under contract to the American Greetings Corporation to hand finish quality cards. Choctaw Greetings Enterprise is housed in a new 120,000 square foot plant and is the first business on an Indian reservation to be financed with state industrial revenue bonds.

The tribal economic development strategy is to create additional jobs through industrial attractions. This goal is being pursued through negotiations with major industries either to locate in the Pearl River industrial park or the tribe's Louisville, Mississippi, industrial property. The tribe is also concerned about the retention of revenue from existing industry. Plans are to develop a neighborhood shopping center in the Pearl River community to retain revenue, to create service sector jobs, and develop a multiplier effect. The present and future economic development strategy is to develop the tribe's economic base through related activities and the involvement of service sector facilities. Industrial negotiations is an on-going process for

The secretary for the executive officer of Choctaw Greetings Enterprise has been trained to carry out the daily functions of business through a tribal training program.

the tribal economic development committee. Funding sources are now being identified for the construction of shopping facilities Preliminary plans and marketing studies are being conducted to determine the feasibility of each component of the center.

Wire Harness Enterprise receptionist.

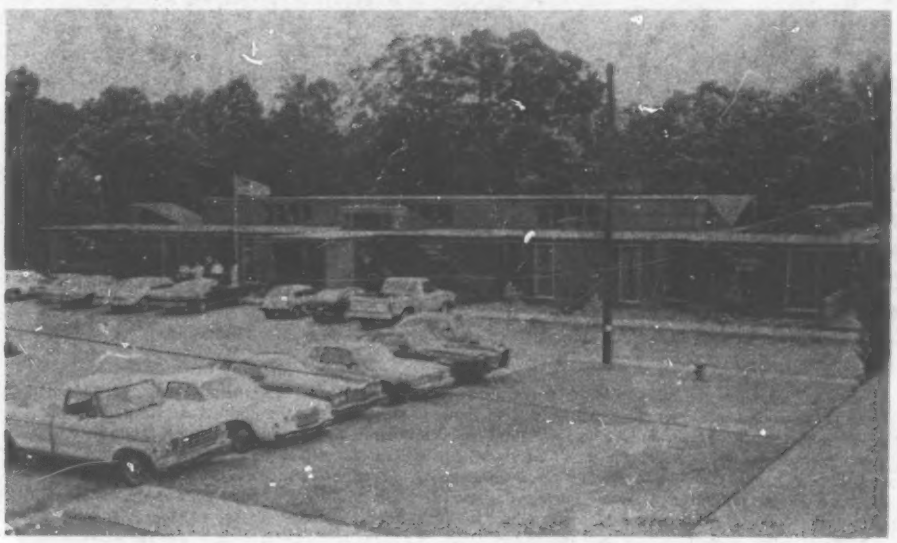
An historic event takes place in Jackson, MS . . . the bond closing for Choctaw Greetings Enterprise marks the first time that industrial revenue bonds have been utilized to finance an industrial project on an Indian reservation as a tribal enterprise. Seated from left: Phillip Martin, Choctaw Tribal Chief; Don Roberts, Vice-President; George K. Baum & Assoc.; and Gene Sherry, corporate financial official for American Greeting Corp. Standing from left: Ed Smith, Choctaw Tribal Attorney; Robert Thomas, City Attorney, Philadelphia, MS; Herman Alford, attorney for the city of Philadelphia, MS; Alton Phillips, bond counsel for Ludlum, Pyle and Stennis; Earnest Tiger, Choctaw Tribal Economic Planner; Larry Rivers, Choctaw Tribal Finance Officer; Beasley Denson, Choctaw Tribal Council Secretary-Treasurer; Luke Jimmie, Tribal Council Education Committee Chairman; and Albert Farve, Tribal Council Economic Development Committee Chairman.

CHOCTAW TRIBAL GOVERNMENT

The Mississippi Band of Choctaw Indians is a federally recognized Indian tribe with a land base in excess of 18,000 acres and a population of 4,914 members. The Choctaw reservation was established by an act of Congress and a declaration of the Secretary of the Interior under authority of Section 17 of the Indian Reorganization Act of 1934.

The Mississippi Band of Choctaw Indians are the descendants of those Choctaws who chose to remain in Mississippi after the period of Indian removal in the 1800's. The Choctaw tribal government was re-established in 1945 and a Tribal Council elected as a governing body. The Tribal Council was accorded little importance between 1945 and 1960; but, thereafter marked the beginning of the establishment of a tribal executive branch which has grown into a sophisticated administrative structure providing the full range of governmental services to the Choctaw people. The social

The Heart of Tribal Government



Tribal Council

legislation of the 1960's improved conditions of poverty and neglect and gave an opportunity for Choctaw people to improve their own social and economic conditions.

In 1975, the tribe approved, by referendum, a revised Constitution and Bylaws. Today the Choctaw Tribal Council consists of 16 members who are elected from the various communities and the Tribal Chief who is elected by the entire tribe. The Chief presides at Council meetings and serves as Chief Executive and Administrative Officer of the Tribe. Separation of powers between the Chief and the Council is spelled out in the Constitution.

The Vice-Chief and Secretary-Treasurer are elected by the members of the Council. The Tribal Council has been organized into a Committee System in order to carry out legislative responsibilities for the Choctaw people. This System is composed of the following standing committees: Health, Education, Governmental Affairs, Budget and Finance, Community Development, Economic Development, and Judicial Affairs.

The Economic Development Committee of the Tribal Council Committee System is composed of five members of the Tribal Council. The Chairman of the Economic Development Committee is elected by the members of the full council. This committee is crucial to the economic development activities of the Mississippi Band of Choctaw Indians.

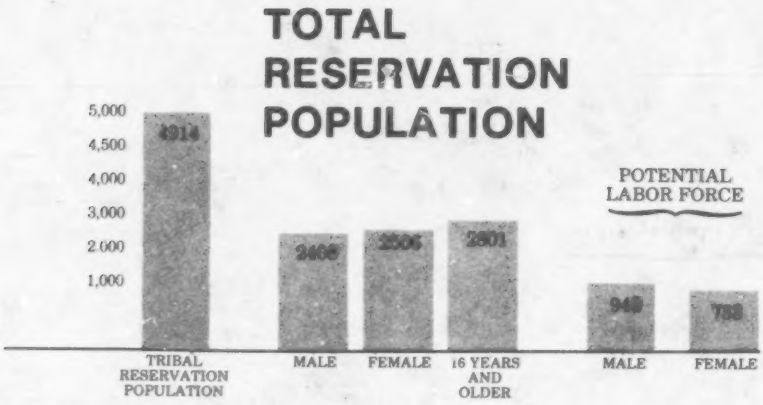
The seat of tribal government is located in the Pearl River Community which is 7 miles west of Philadelphia, Mississippi, in Neshoba County. Pearl River Community is approximately 9,000 acres and the largest of the seven Choctaw communities with approximately 1,700 residents.

REGIONAL SETTING and LOCATION

The Choctaw Industrial Park is located 7 miles west of Philadelphia, Mississippi, in Neshoba County. Interstate Highways 59 and 20 at Meridian are approximately 42 miles southeast of the industrial park via state Highway 19. Interstate highway 55 is approximately 51 miles west of the industrial park via state Highway 16, and Jackson, Mississippi is 18 miles south of the intersecting point of Interstate 55. The Natchez Trace Parkway, a major tourist route, is only 27 miles west of the Choctaw industrial park. The Choctaw industrial park is accessible to Jackson, Mississippi; Meridian, Mississippi; Birmingham, Alabama; New Orleans, Louisiana; Memphis Tennessee; and Atlanta, Georgia, by the state highway system within reasonable driving time. The Choctaw Industrial Park is located within Section 30, Township 11 north, Range 11 east.

Commercial and private air services are available in Jackson, Louisville, and Meridian. There are also landing fields in numerous smaller towns, including Philadelphia, with regularly scheduled commercial carriers servicing both Jackson and Meridian.

Motor freight service to the area is provided by Merchants Truck Line, Shippers Express, Allen Burrage Trucking Company, and Spector Freight System. Passenger transport service is provided by Gulf Transports. Merchants Truck Line and Shippers Express provide direct truck service to Memphis, Jackson and Birmingham. Shippers Express provides direct service to all points in Mississippi and services coast to coast. Rail freight service is provided in Philadelphia by Illinois Central Gulf.



PHYSICAL CHARACTERISTICS

The climate is sub-tropical with approximately 192 days between killing frosts. The Choctaw Industrial Park has a moist temperature climate with an average rainfall of 43.26 inches. The mean temperature is 63.9 degrees with an average temperature of 47.4 degrees in January and 80.18 degrees in July. Moderate temperatures and minimal snowfall prove to be a plus to potential industrialists. The park, 415 feet above sea level, is well-drained. Grading or extensive site preparation will not be required. Soils are dense and have low compressibility with fine packed sand and clayey sand underlying the surface strata of dense clayey silt with an undrained shear strength of 1,500 pounds per square foot.

POLICE PROTECTION

The Choctaw communities are provided law enforcement through the Bureau of Indian Affairs. The 4-car law enforcement center is located in the Pearl River community and is manned by 6 full-time policemen with 24-hour service.

CHOCTAW
INDIAN
RESERVATION

FIRE PROTECTION

The reservation communities have a volunteer fire-fighting program which includes 4 fire stations, located in the largest communities, with the following equipment: 2 - 750 gallon pumpers, and 2 - 500 gallon pumpers.

Two of the above trucks are new and all trucks are kept equipped and up-to-date. In addition, the reservation communities are provided fire protection service from adjacent municipalities and counties. The fire insurance rating for the Choctaw Industrial Park is 10.

WATER SYSTEM and SERVICES

The Choctaw industrial park is supplied with water by two deep wells with a flow rate of 400 gallons per minute. The park has a 250,000 gallon water tank storage capacity. The existing industries are supplied water through an 8-inch cast iron piping system. The Choctaw industrial park water system and service is maintained by the Choctaw Utility Commission and has 60 lbs. of pressure per inch.

The nearest navigable waterway is the Tombigbee River, located 85 miles away and with a depth of 9 feet and a width of 200 feet. The nearest large terminal, located only 100 miles away, is the Demopolis Terminal in Demopolis, Alabama.

SOLID WASTE DISPOSAL and SEWAGE DISPOSAL

Solid waste disposal and sewage disposal services are maintained by the Choctaw Utility Commission. The sewage disposal system for the Choctaw industrial park is a 2-acre multi-cell activated sludge sewage disposal and treatment facility serviced by a 200 gallon per minute pumping station and equipped with 10-inch iron piping systems.

UTILITIES

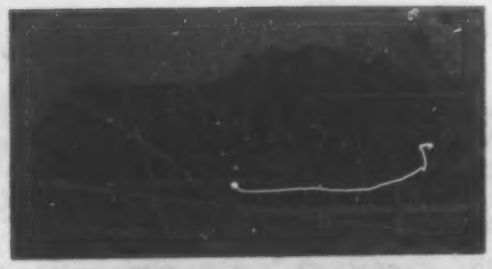
Electrical power for the park is supplied by the Central Electric Power Association.

Telephone service is provided by South Central Bell for industries within the industrial park.

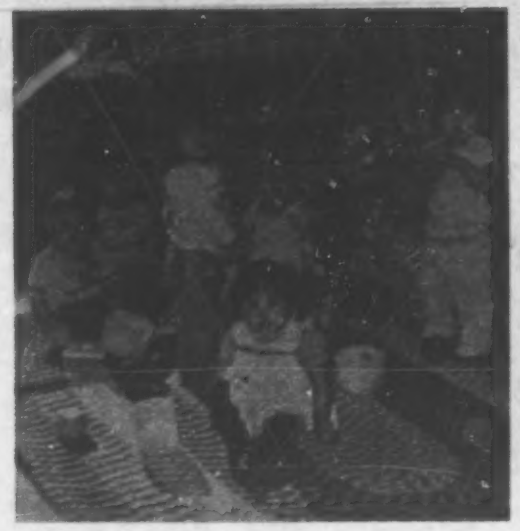
BUS SERVICE

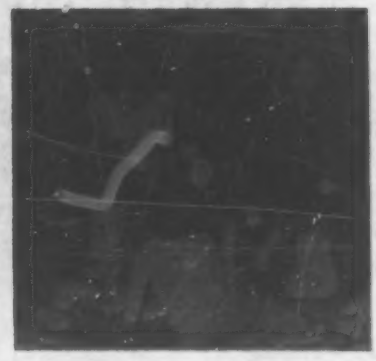
The Choctaw Transit Authority provides bus service to six of the Choctaw communities for those employed in the Choctaw industrial park.

DAY CARE



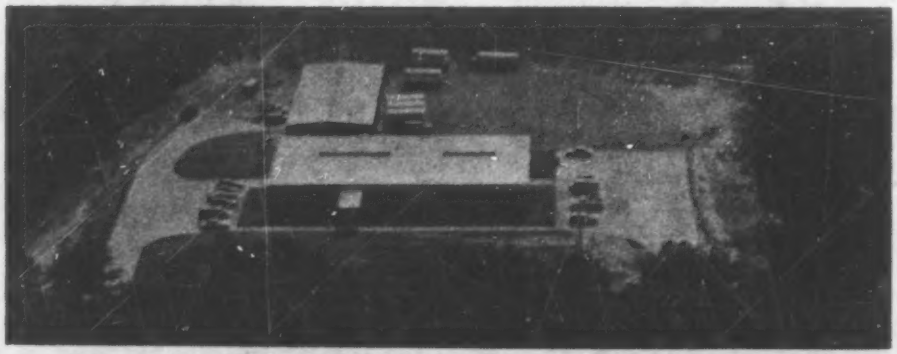
The newly constructed Choctaw Day Care Center provides child care service for working parents.





SCHOOL FACILITIES

Manpower Training Center provides vocational training to meet the needs of industry.



The Choctaw school system, administered by the Bureau of Indian Affairs, has an enrollment of 1,051 students (grades K-12) in the 1981-1982 school year. Elementary education is provided in six of the Choctaw communities, and the high school system is located in Pearl River Community.

The Choctaw Manpower Training Center, a newly constructed facility, provides work experience and classroom training to enable tribal members to obtain realistic work experience and to meet industrial job skills demand.

There are 8 colleges and universities within a 65-mile radius of Philadelphia, Mississippi.

MEDICAL FACILITIES

Tribal health care is administered jointly by the tribal government and Indian Health Service. A 43-bed health facility was constructed in the Pearl River Community in 1975. A full range of medical services is available at the Choctaw Health Center. Twenty-four hour a day ambulance service is provided.

The environmental health program is located within the Choctaw Health Center. This program is directed toward prevention of chronic and communicable diseases, protection of the environmental health and provision of other health services.

There is an abundance of hospitals, clinics, and medical specialists within an 80-mile radius of the Pearl River Community.

MAJOR MANUFACTURING EMPLOYERS IN THE AREA

Name	Products of Service	No. of Employees
Chahta Enterprise	Automobile Wire Harnesses	217
Chata Development Company	General Contracting	60
Choctaw Greetings Enterprise	Greeting Cards	200
Garan Incorporated	Boys' Pants	210
Molpus Lumber Company	Lumber, Wood Chips	371
Marshall Durbin Company	Poultry Hatchery, Feed Mill	200
Nemanco Incorporated	Sportswear	158
Richardson Company	Battery Parts	72
U. S. Electrical Motors	Electric Industrial Motors	805
Wells Lamont Glove Corporation	Work Gloves	556
Weyerhaeuser Company	Lumber and Plywood	479

INDUSTRIAL FACTORS

The Choctaw industrial park is located within an area of East Central Mississippi which has an estimated population of 100,000 people within a 30 mile radius. This area could easily supply several thousand industrial workers for manufacturing plants. The Choctaw industrial park lies within overnight reach of more than 146 million people representing a market of well over $13 billion per year.

Choctaw

THREE PRINCIPAL WAYS BY WHICH

INDUSTRIES and INDIAN TRIBES CAN BECOME AFFILIATED

A COMPANY-OWNED BRANCH PLANT

The industry would be responsible for providing the capital investment needed to construct and equip a plant on Indian land, and also provide the key personnel and working capital required to operate the facility.

Under this type of arrangement, the company owned and managed plant would have 100% ownership, control and management of the plant.

The industry would be required to complete a lease or sublease with the tribe in order to construct a facility on tribal land or to occupy a tribally-owned building.

Beyond any key personnel brought to the operation by the industry, the tribe would assist in recruiting tribal members as workers in the plant, as well as secure the necessary funds to train the workers.

A JOINT VENTURE

The advantages of a joint venture are that the industry and the tribe would share in the ownership, control and management of a plant. This is to include the financial costs to establish and run the plant, any future risks, and the division of profits.

A joint venture approach would probably enhance the venture's ability to attract financial assistance through the combined financial strengths of the industry and the tribe. The contribution of the firm's expertise in the industry would be regarded as an asset to the success of the venture.

It is recommended that any proposed joint venture consider the advantages of beginning with at least 51% tribal ownership. This will qualify the venture for participation in Indian financial assistance programs and various public and private industry procurement programs which require majority Indian ownership and control. A divestiture agreement may be associated with the joint venture. That is, the tribe may set up a schedule to purchase the controlling stock with the intention of assuming full control and management of the operation in time.

A WHOLLY-OWNED ENTERPRISE OF THE TRIBE

The tribe would be responsible for completely financing the establishment of the proposed plant, including building construction or renovation, site development or improvement, equipment, and operating capital.

As in the cases of the company-owned and joint venture operations, the tribe would provide or obtain the funds necessary to train workers. This would be directly through its eligibility to participate in Indian manpower training programs sponsored by the Bureau of Indian Affairs (BIA), Indian Health Service (IHS), or the U. S. Department of Labor (DOL), or indirectly through prime sponsorships of state and county training programs.

In addition to a 100% ownership, the tribe would also have complete control and management of the operation. However, since industry has the expertise in management, production, technology, and marketing, the tribe would need to contract with the firm to provide necessary management and technical services that will ensure the operation is well-established and maintained with effective business organization and practices. The firm would negotiate with the tribe for its remuneration in providing management and technical services.

In providing management and technical services to the tribal operation, it is recommended that a training program be established to qualify Indians as managers and technical specialists able to assume control of the operation by the end of the contract term. The average term of the contract for management services between tribes and private companies is five years, most having options for renewal. The amount of time will, of course, depend on the nature of the industry and the degree of technology involved, as well as the amount of effort required to adequately train and qualify the Indian personnel to take over management of the corporation.

Under the "Buy Indian Act", the Bureau of Indian Affairs and the Indian Health Service stipulate the following procurement policy: "All purchases or contracts be made or entered into with qualified Indian contractors to the maximum practicable extent. Before taking any procurement action, contracting officers shall first determine if there are any qualified Indian contractors within the normal competitive area that can fill the procurement requirement. **Indian contractor** means a legal entity which is 100% Indian owned and controlled." Thus for purposes of contracting with the BIA and IHS, the tribal enterprise should be considered as the approach to secure a marketing advantage through preferential contracting.

An interesting approach for a private industry to become affiliated with a tribal enterprise is sometimes referred to as a "dedicated supplier" status or contract. This is particularly appropriate when the private industry has the production requirement and the tribe has the ability to amass the wherewithal for manufacturing.

The Mississippi Band of Choctaw Indians will consider any one of the three (3) approaches, but would prefer the wholly-owned tribal enterprise.

DEVELOPMENT ADVANTAGES

The Choctaw tribe, as a sovereign unit of government, can allow business and industrial development advantages such as: (1) exempting property, plant and equipment taxes; (2) less regulatory constraints than counties and municipalities; (3) flexible lease structuring up to a maximum of 50 years; (4) flexible financing through structures such as branch plants, joint ventures, and tribal enterprises.

Industrial revenue bonds can now be utilized to finance plant construction and purchase equipment through a tripartite agreement under which bonds are guaranteed by major corporations.

Industrialists may wish to consider a wide range of state and federal government assistance available to further the establishment of industry on the Choctaw reservation. This assistance includes: (1) subsidized training through the Bureau of Indian Affairs or the Department of Labor; (2) construction and financing of equipment and facilities through Chata Development Company via SBA guaranteed loans.

In addition to the above cited development advantages, Chata Development Company, a Choctaw owned, non-profit development corporation, can construct industrial or commercial facilities to your specifications.

CHATA DEVELOPMENT COMPANY

Chata Development Company was the first tribal business established on the Choctaw reservation. Chata Development Company was chartered by the State of Mississippi in 1969, as a non-profit, local development company. This tribal business has specialized in general contracting. It is responsible for constructing more than 400 reservation housing units and has provided renovations and repairs to more than 200 existing tribal housing units. Chata Development Company has constructed education and school facilities, tribal offices, community buildings, the law enforcement center, the industrial park and the industries within, and the Choctaw Health Center. This company is primarily responsible for the development of the tribal physical infrastructure.

As a local development company, Chata Development Company has provided financial assistance for industrial projects, financing for land acquisitions, and general community development assistance.

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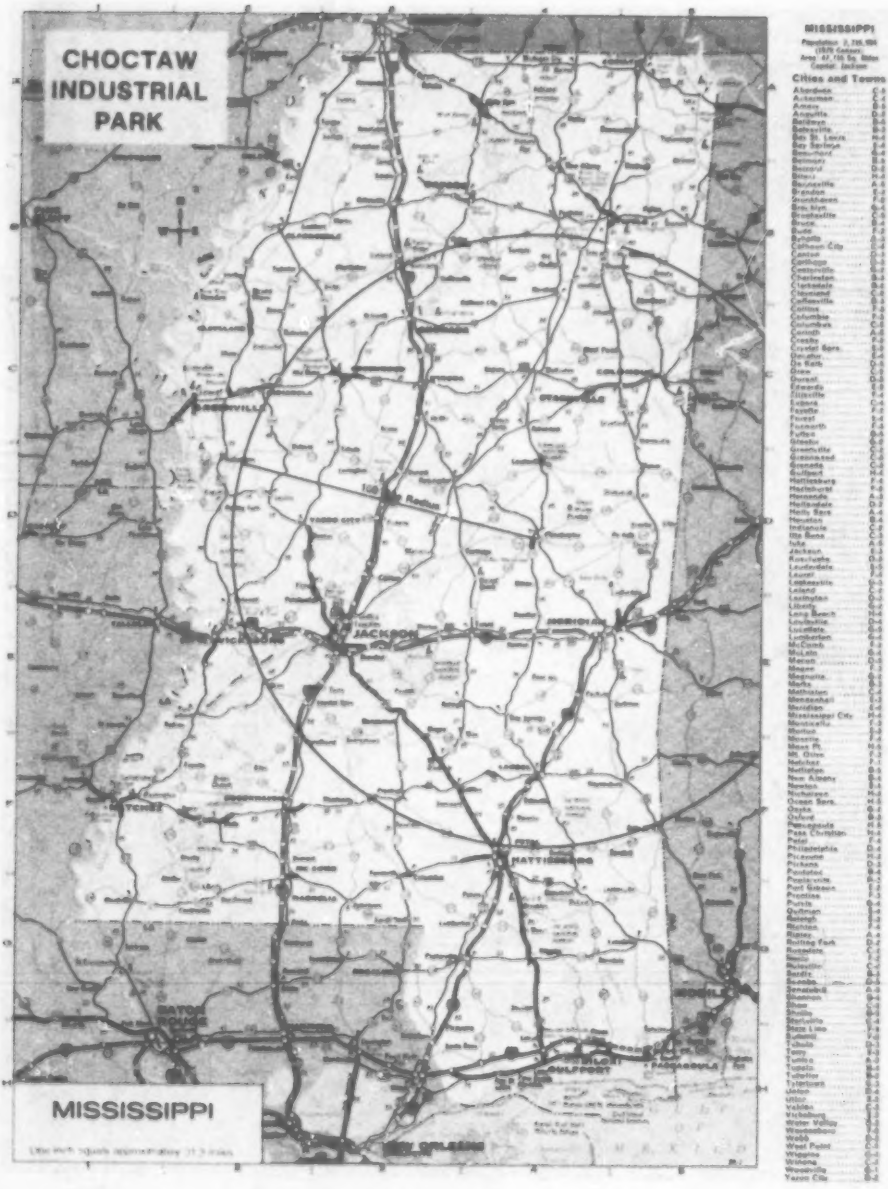
CHAHTA ENTERPRISE

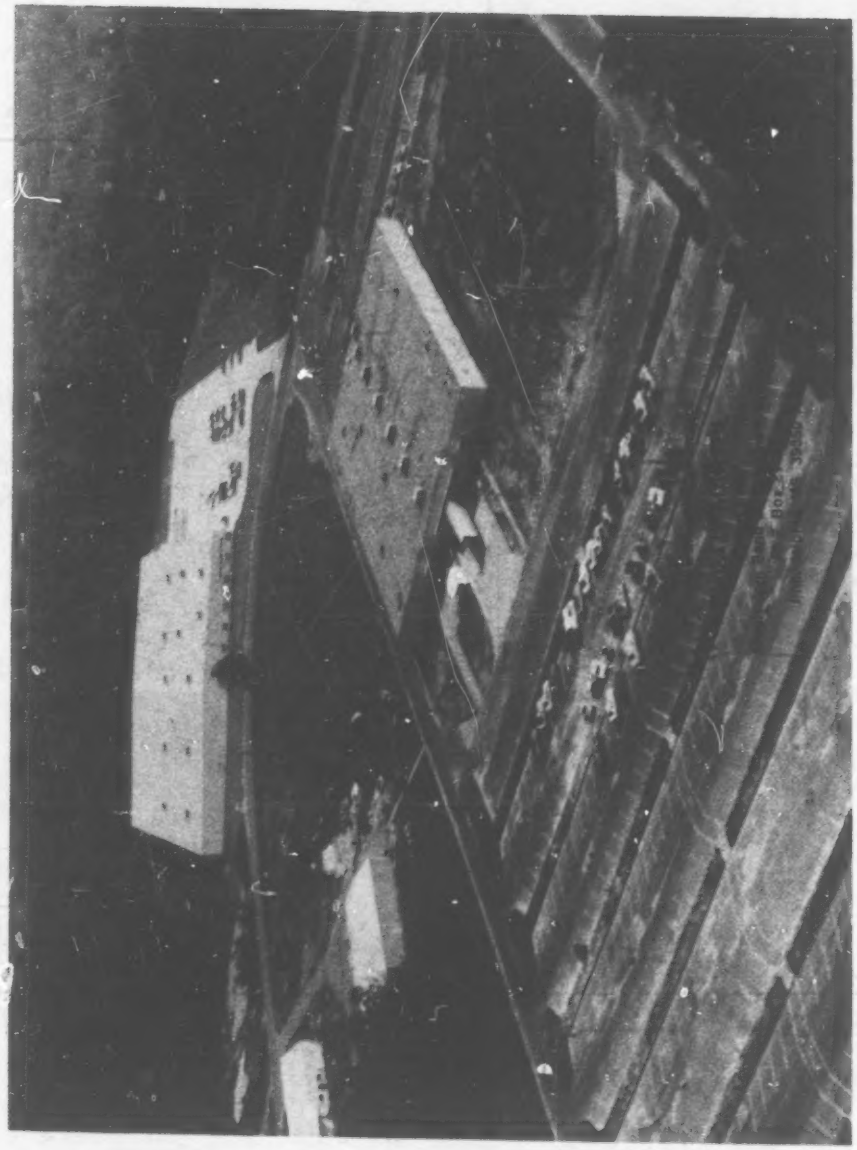
Chahta Enterprise was established in 1979, as a Tribally Chartered Corporation to manufacture wire harness assemblies for Packard Electric, a division of General Motors. Chahta Enterprise was financed through loans and grants from the Economic Development Administration and the Bureau of Indian Affairs. The tribal local development company provided the local cash match. This enterprise has 217 employees manufacturing wire harness assemblies for General Motor's pick-up trucks and LeSabre Buicks. Chahta Enterprise labor force is comprised of 75% tribal members. This business has the lowest rejection rate of any of Packard's dedicated suppliers.

CHOCTAW GREETINGS ENTERPRISE

Choctaw Greetings Enterprise is a Tribally Chartered Corporation and is under contract to the American Greetings Corporation to hand-finish quality greeting cards. The establishment of Choctaw Greetings Enterprise has afforded the Choctaw tribe with the distinction of being the third largest greeting corporation in the world, in line behind Hallmark and American Greetings Corporation.

The company is the first business on an Indian reservation to be financed, as a tribal enterprise, with state industrial revenue bonds. Bonds were issued for the construction and equipping of a 120,000 square foot facility under a tripartite agreement involving the Mississippi Band of Choctaw Indians, the American Greetings Corporation, and the City of Philadelphia, Mississippi.


CHOCTAW
INDUSTRIAL
PARK
MISSISSIPPI
JACKSON
MERIDIAN
HATTIESBURG
BILOXI
GULFPORT
PASCAGOULA
NEW ORLEANS
Cities and Towns



Senator COHEN. Briefly summarized, I think we have been hearing the same story over and over again, but we have no real sense of direction emanating from Washington. What is taking place is merely a budgetary approach, in my judgment, and we are looking to see how much the deficit is and how much we are going to cut back and then say that you are going to simply have to devise new ways. Well, I do not think it is fair or responsible on the part of the Federal Government to say that we are going to cut the budget by, in essence, 50 percent for ANA and to direct the Indian people to go out and come up with their own solutions. That simply is not a fair way to deal with you, or to deal with anybody.

So, I think that what is coming out of this, at least in your sense of frustration, is that, yes, we can cope. Yes, we recognize that times are going to be tough for the Federal Government, for all of us, for businesses. We do want to move in the direction that you public officials keep talking about and that is self determination and independence and to break the cycle of continued dependency upon the Federal Government. That has to be the long-term goal, I think, that all of us share, but we simply cannot abdicate the responsibility and just cut it loose and say now you are on your own, and frankly, I do not know. I am happy to hear you say that you feel that the tribal governors and managers can cope. But I would have some reservations about that, frankly, that you do not send an unarmed man into a conflict.

Mr. MARTIN. We buy expertise.

Senator COHEN. Well, that is right. But you must have resources to buy expertise.

Mr. MARTIN. That is right.

Senator COHEN. I think what we have to strive for is that measure of help along the way that you want the same goals that we want.

Mr. MARTIN. Yes, sir.

In departing, I would like to give you a copy of this booklet that we have developed, "We are Choctaw," an industrial development brochure that we sent out to everybody in the country for more industry, for you and Senator Andrews.

Senator COHEN. Thank you very much, Mr. Tiger, Mr. Martin, and Mr. Trimble.

Mr. MARTIN. Thank you.

Senator COHEN. Our final panel of witnesses will include William Yallup and Conley Ricker, who will speak on behalf of the American Indian National Bank.

TESTIMONY OF A PANEL CONSISTING OF CONLEY RICKER, CHIEF EXECUTIVE OFFICER, AMERICAN INDIAN NATIONAL BANK; DOROTHY SAMPSON, ASSISTANT VICE PRESIDENT, AINB; CHARLES TRIMBLE, DIRECTOR AND CHAIRMAN OF THE AUDIT AND EXAMINING COMMITTEE, AINB; ALAN PARKER, DIRECTOR AND CHAIRMAN, STRATEGIC PLANNING COMMITTEE, AINB; AND LUCILLE ECHO HAWK, CHAIRMAN, NATIONAL ADVISORY COUNCIL, AINB

Mr. RICKER. Good morning, Mr. Chairman. It is my pleasure to be here. We thank you for the opportunity for the American Indian National Bank to be represented. May I introduce my associates to you? On my left is Lucille Echo Hawk, who is the chairman of our Na-

tional Advisory Council. She is an employee of CERT and she coordinates or will be coordinating our National Advisory Council activities with the 29 CERT tribes and other tribes.

On my left is Alan Parker, who is on our board of directors and is chairman of our Strategic Planning Committee having to do with the long-term expansion of the bank into the Western Indian communities.

On my right is Charles Trimble, whom you have already met who is also on our board and is chairman of the Audit and Examining Committee, and on my right over here is Dorothy Sampson, assistant vice president and manager of customer service in our Washington headquarters office.

As I mentioned to you, Senator, the remarks will be very short about the American Indian National Bank.

We were formed in 1973 as a financial vehicle to combine the resources of Indian tribes and people as a source of lending funds to help their economic development. We were capitalized at about $1.5 million and located in Washington, D.C., which was a location very far from the community we were chartered to serve. We proceeded for a few years to try to find a way to make loans from Washington to help Indian development in the West and we had some problems at that time which we have now overcome. In overcoming those problems we had to raise additional capital of which the first stage has been completed. With regard to the ownership of the bank, we are completely, 100 percent, owned by Indian tribes and people. The tribes that own the controlling interest are the Confederated Tribes and Bands of the Yakima Indian Nation in Washington State, the Ute Tribe of the Uintah and Ouray Reservation and the Colville Confederated Tribe. Those three tribes own 86 percent of the bank and then there are about 360 other shareholders, including about 15 other tribes who own small amounts of shares in the bank.

Briefly, the bank had problems in the early years. I was asked to come in, in 1978 to engineer a financial recovery and growth program. That has been done. We now have had our third year of consecutive growth in earnings, capital, and deposits. From a low point of capital in 1978 or $52,000 we are now at $2.5 million in capital. Deposits are up from $11 million to about $26 million, and our earnings have gone from a minus $800,000 in 1978 to $630,000 positive last year; our third consecutive year of increased earnings.

In the 3 years of the turnaround we have earned in excess of $1.5 million.

Senator COHEN. We should have you appear before Jake Garn's Banking Committee to tell him what you are doing right because he has a lot of problems with the banking institutions of this country.

Mr. RICKER. We hope so, someday, when we ask for legislation, to let us establish a bank on an Indian reservation in the West.

Now, in the exhibits that we have I will just touch on one or two things. We have been able to make some loans to help Indian enterprise development; to help the tribes with their funding of enterprises to increase their employment base. In the exhibit that you have, there are about 20 of those. We also have a program underway to help the tribes help themselves with commercial lending. We are able to lend money at 12, 13, and 14 percent. We are able to lend it for 5 and 10

years, and we are able to help whenever we can with depository and investment services as well.

Senator COHEN. What kind of guidelines do you use when you decide to make a loan for tribal development? What do you establish for guidelines?

Mr. RICKER. That is a very good question because when I joined the bank, we had to establish new lending policies immediately as prior policies did not work. We have found some ways to secure loans with collateral that heretofore had not been used. We require some kind of a secondary source of repayment other than the primary source and the tribes have to come up with this secondary resource. For example, we have found a way that the tribes can pledge the interest on their certificates of deposit, which are being managed for them by the Bureau of Indian Affairs, to secure loans.

The Bureau manages for the tribes a total fund of about $1.5 billion. You are probably aware of that sum because it grows enormously at these interest rates. But the tribes that have $100,000 to $2 million can pledge interest to us for loans. We do require that the loan be adequately secured if there are not financial statements and other financial history to justify the loan.

Senator COHEN. Have you had any problems with respect to the two items I mentioned this morning: the sovereign immunity of a tribe and the other thing I would mention is the stability of the tribal government itself? I assume that this is part of the problem that we have had, where the private sector has not been eager to invest because of a question about stability, absence of regulatory mechanisms, and all the things that we assume are inherent in a municipality or a town, the infrastructure?

Mr. RICKER. We have gone beyond those, Senator, and they were and are a very important consideration. For example, if a tribe has formed a corporation under the Indian Reorganization Act of 1934 the issue of sovereign immunity is not so important. The Indian Reorganization Act of 1934 permitted the tribes, as you know, to form a corporation, and this corporation, if it got its charter approved by the Secretary of the Interior, could sue and be sued. When we have that we have a legal entity that can pledge collateral, that can be sued in the courts, and we do not have to worry about sovereign immunity. If we do not have that, which is the case of a Colville loan we made, we simply make an agreement with the tribe to maintain a certificate of deposit in the bank throughout the term of the loan.

The other question was having to do with the stability of the tribal government. That is a very important factor that goes into credit analysis. However, we have structured loans so that regardless of who is in office, the loan is sufficiently collateralized so that it will be paid from assignment of lease income, for example. We had one tribe in one part of the country which had a lot of financial problems and they were changing governments and trying to get out of their problems. During this time, we had a loan there of $300,000 secured by the assignment of grazing fees collected by the Bureau of Indian Affairs on land leased to Indians and non-Indians and these collections went into a cash collateral account. Therefore the loan was paid as agreed.

Senator COHEN. What would this American Indian Development Bank do that you cannot do? What is different about it?

Mr. RICKER. That would serve—and Mr. Parker is here who is working on that legislation and he may want to comment on that, but that definitely would serve to fill a need in the equity venture development type loans that the bank is not chartered or has not been chartered to serve. The bank is a fiduciary, investing depositors' money, as you know. The equity or developmental portion of funding and financing, generally comes from the private sector, from investors. We are interested only in going into businesses that have some kind of a beginning already, some kind of management, and some kind of ability to generate earnings, and we help them expand their equipment, their working capital, or whatever.

The Development Bank would be a source of funds, an enormous source of funds, for the early stages of an enterprise. We would like to work closely with that bank to be a depository and to advance funds as the enterprises begin to mature financially. Would you have any other comment on that, Alan?

Mr. PARKER. No, I think that is an adequate response and I think it is one that we had fully considered when we were formulating the proposal that, as you know, is near completion now.

Senator COHEN. You mentioned the $1.5 billion now held by the BIA, the interest on which is considerable in view of the high interest rates now that are being paid. Do you see any possibility of utilizing some of those funds to capitalize either your bank or the proposed bank?

Mr. RICKER. That would be up to the Congress, as I understand it, which has ultimate jurisdiction over that trust responsibility.

What our thought here is, should there not be some way to maximize the leveraging of those moneys for the benefit of Indian people? Some of the interest on those funds is utilized for tribal operations, carrying the payroll, and so on. We have found a way that some of the interest on the CD's managed by the Bureau can be utilized to secure loans.

A third way would need to be some kind of a study or commission to look into how a tremendous resource like that, or how some part of it, can be utilized above and beyond what we are talking about. That is for the development bank or for development funds for natural resource development, for industrial parks or whatever, for the benefit of the people for whom the money is being held in trust.

Senator COHEN. Do you have more that you would like to present? Those are all the questions I have.

Mr. RICKER. Yes, just a couple more things.

What do we need? We are not asking for money at the American Indian National Bank. We need capital and we plan to raise capital. Plans are underway right now to increase our capitalization by another $1 million to $2 million. We believe in the private sector; we are the private sector. And we are approaching the tribes with a track record, earnings history, and a potential dividend payoff to ask them to invest in the bank. So, we are not here on that behalf.

But what we do need is this, and you touched on it very eloquently a few minutes ago, the transition between reduced Federal funding and full economic development. We feel that rather than just cut back the budget, some assistance should be given in the transition, and we have several suggestions there. One is, and that has been mentioned too, the Indian Finance Act.

That was a guaranteed loan program similar to SBA but, however, after 2 or 3 years experience with it, it was no longer funded. However, we say now that the bank has good experience with how to make these loans. The Bureau has some people aboard now who have good experience, and it would be a shame to waste this experience and not refund that act which is in place. We are suggesting that a look be given to reinstituting the Indian Finance Act along the lines of SBA and putting the program back in effect. After all, it is off-balance sheet financing; it is guarantees only, and now that we have 9 years' experience, we could help with this kind of a program at minimum risk to the Government.

We will need to come before you and Senator Garn and others at some time to permit us to bank across State lines. We do not have the capital strength right now to come forward and ask for legislation to let us put a bank on an Indian reservation from our holding company which we plan to form, but at some time we do plan to come with those plans.

It seems to me that the two Government policies are in conflict right now. One policy is that the tribes are going to be cut back from their funding and at the same time encouraged to develop their economies.

The other policy is that the McFadden Act prevents a financial institution like ourselves from putting a bank across State lines on a reservation which could provide the credit which is needed for the economic development. So, at some time with our strategic planning and our board, we plan to come forward after we have additional capital and continued earnings growth, and ask for legislation to let us or any bank expand across State lines to come on a reservation, so that a source of credit is available to help the Indian people with their economic development.

Senator COHEN. Thank you very much, Mr. Ricker. Any of the other members of the panel, do you desire to make a statement?

Mr. RICKER. Well, I did not mean to take the whole time here but we have very capable people here who may want to make a comment.

Mr. PARKER. No, thank you.

Mr. RICKER. All right. Thank you, very much.

Senator COHEN. Your prepared statement will be made part of the record at this point.

[The statement follows:]

PREPARED STATEMENT OF R. CONLEY RICKER, JR., CHIEF EXECUTIVE OFFICER OF THE AMERICAN INDIAN NATIONAL BANK

Mr. Chairman, members of the panel and guests. On behalf of our Board of Directors, Stockholders, friends and customers of the American Indian National Bank, I want to take this opportunity to thank you for the invitation to appear before you this morning. It is with great pleasure that we present to you our testimony with regard to the efforts of the American Indian tribes and people within the country's private sector to help themselves through the formation and capitalization of an Indian owned financial insitution. My remarks this morning will cover the history of the Bank including early operations, the Bank's ownership and financial recovery program, representative loans that the Bank has made toward helping Indian economic development, the seminar we sponsored on Indian economic development and future plans of the Bank and our overall recommendations as to what might be done to encourage economic development on Indian reservations.

CONCEPT AND BACKGROUND

The concept of a national Indian financial structure, wholly owned by American Indian organizations and individuals, that would assist Indian communities to establish and develop a strong economic base, has been discussed over the course of many years. Government officials and Indian leaders have exchanged views, which gradually coalesced into a workable idea.

The foundation and first step in this effort was the establishment of the American Indian National Bank. Its creation in 1973 was considered a primary necessity in the view of advocates of Indian economic development. These included: William W. Keeler (Cherokee); Peter MacDonald (Navajo); Marvin L. Franklin (Iowa); Robert Bennett (Oneida); Robert Jim (Yakima); Earl Old Person (Blackfeet); and John Borbridge (Tlingit). General George Olmsted, Chairman and President of the Washington-based financial services International Bank, supported the project by providing a specific concept, the assistance of experienced financial experts, and financial support.

The application for a charter was unique for several reasons. In 1970, the Commissioner of Indian Affairs had appointed an Indian Banking Committee to examine the need for and evaluate the problems involved in establishing an Indian-controlled financial structure.

The findings of this task force portrayed the Indian community as an economic "island" within the American free enterprise system. Tribes, reservations, communities and similar groups had no Indian-oriented financial structure to assist them in the protection, development and control of Indian resources. No vehicle existed to help Indians expand their own capabilities through improved access to the financial segment of the United States economy.

The study revealed that although there was outstanding Indian talent across the nation, it was not sufficiently conversant with financial and banking functions to launch unilaterally a financial services venture by Indians themselves.

Federal funds were obtained to conduct a training program in banking operations for Indians. International Bank of Washington was engaged as the management consultant to the American Indian National Bank to initiate banking operations and to provide continuing assistance over a five-year period. The founders envisioned expansion of the financial structure into commercial lending for Indian tribes and enterprises.

Additionally, International Bank advanced a million dollars for use as initial capital so that banking operations could begin simultaneously with invitations to tribes and individuals to invest in the new bank. The initial capital was administered by a separate American Indian Trust which existed for one year.

Chartered as a national bank by the Comptroller of the Currency, AINB officially began operations in Washington, D.C., November 15, 1973. The Bank was established under Federal banking laws and is a member of the Federal Reserve System. It is subject to normal regulatory requirements of the Comptroller of the Currency and fully accredited and insured by the Federal Deposit Insurance Corporation (FDIC.)

The Bank is located on the third floor of an office building in downtown Washington, D.C. at 1701 Pennsylvania Avenue, NW.

OWNERSHIP

Of the Bank's initial capitalization, the Confederated Tribes and Bands of the Yakima Indian Nation invested $1 million in the Bank's common stock and the Ute Tribe of the Uintah & Ouray Reservation invested 500,000. In 1980, the Colville Confederated Tribe invested $300,000 through the purchase of common stock. Current ownership by the three largest shareholders is as follows: Yakima, 51%; Ute, 22%; and Colville, 13%.

Under the Bank's Articles of Association as authorized by the Office of the Comptroller of the Currency of the United States, Article V limits the issuance and sale of the Bank's common stock to (1) a tribe of Indians which has conducted a treaty with the United States of America or (2) an enrolled member or person of an Indian tribe which has obtained general recognition by the Bureau of Indian Affairs. As of year end, the Bank had 378 shareholders with the majority of the common stock held by the following tribes and native corporations:

Name	*Location*
Confederated Tribes & Bands of the Yakima Indian Nation	Toppenish, Wash.
Ute Tribe of the Uintah & Ouray Reservation	Fort Duchesne, Utah
Colville Confederated Tribes	Nespelem, Wash.
Arctic Slope Regional Corporation	Barrow, Alaska
Koniag, Inc	Kodiak, Alaska
Colorado River Indian Tribes	Parker, Ariz.
Seminole Tribe of Florida	Hollywood, Fla.
Afognak Native Corporation	Kodiak, Alaska
Crow Tribe	Crow Agency, Mont.
Miccosukee Tribe of Indians of Florida	Miami, Fla.
St. Croix Tribal Council	Webster, Wis.
Shoshone & Bannock Tribes	Fort Hall, Idaho
Tule River Tribal Council	Porterville, Calif.

EARLY OPERATIONS

After the Bank opened for operations in November of 1973, officers and directors toured the country and Alaska in search of deposit relationships and lending opportunities. By the end of calendar 1974, deposits totaled approximately $10,800,000 and loans amounted to $2,653,000. During 1974 the Indian Finance Act of 1974 was passed by Congress and signed by the President and became law. Under this law, Indian enterprises and individuals were eligible to secure loans from banking institutions which were guaranteed 90 percent by the Bureau of Indian Affairs of the Department of Interior. During the early years the Bank began to book a substantial number of loans that were 90 percent guaranteed by the BIA which enabled the Bank to invest deposits in loans to Indian tribes, enterprises and to Indian individuals. In 1978, the Bank had BIA guaranteed loans outstanding amounting to $3,728,117 with a loss exposure to the Bank of $377,565.

The Bank had several unique characteristics to overcome in the early years. The Bank not only was located 2,000 miles to 3,000 miles away from its primary community of Indian tribes and reservations located in the western United States, but also it was located on the third floor of an office building in downtown Washington. The initial strategy was to concentrate on tribes and tribal enterprises as opposed to commercial and retail banking business in the immediate Washington area.

The limited capital structure of approximately $1,500,000 and the vast geographical distance at which the Bank was located from its Indian community were difficult obstacles to overcome in the early years. Through 1978 the Bank tried unsuccessfully to find the proper combination of lending policies and loan servicing management to handle a loan portfolio located at such a vast geographical distance from the main office. The efforts were unsuccessful in that in 1977 and 1978 the Bank basically lost its initial capitalization through charge offs of uncollectible loans.

In July of 1978, the Board of Directors reorganized the management of the Bank and invited the undersigned to become the Bank's Chief Executive Officer with the responsibility of developing a financial recovery and rebuilding program. With the assistance of the Board of Directors, new lending policies were established which essentially substituted liquid collateral for distance. New capital was raised in the amount of $610,000 and an extensive program was undertaken to collect and collateralize loans that were in serious difficulty.

In 1978, it was the strategy of the management of the Bank and the Board of Directors to start over and capitalize on what had been learned in the past and to build the Bank's foundation for growth and future expansion.

FINANCIAL REBUILDING PROGRAM

After strengthening the Bank's lending policies and implementing a collateralization and recovery program on loans outstanding, new capital was raised through the offering of 150,000 of the Bank's common stock at $10 per share under a private placement offering. Of this new issue 20,000 shares were purchased by the Yakima Indian Nation for an investment of $260,000; 30,000 shares were purchased by the Colville Confederated Tribes for an investment of $300,000 and 5,000 shares were purchased by Arctic Slope Regional Corporation for an investment of $50,000.

While the loan reorganization and restructuring was in process and capital was being raised, the management of the Bank oriented the officers and the

directors toward broadening the Bank's overall deposit base. Specialized services were offered to Indian tribes including the utilization of the Bank as a depository for letters of credit and loans at advantageous interest rates provided the loans were well secured or otherwise covered by adequate financial statements and earnings history. In addition, a Metropolitan Division was formed to broaden the Bank's earnings and deposit base in the Washington Metropolitan Area. A strategy evolved to concentrate in the non-profit sector in Washington which included those organizations that are providing a social service and are funded basically by the Federal Government. The Bank expanded its approach toward other minority groups including Blacks, Hispanics, Asian Americans and others who were under served in the metropolitan area.

RESULTS OF THE RECOVERY PROGRAM

In calendar 1979, the Bank posted its first year of earnings in the history by recording earnings for the year of $421,541. Through the generation of these earnings and through the capital stock sold, net worth was increased to $1,037,585 at the December 31, 1979 from $52,044 at the low point on December 31, 1978.

In 1980, the Bank continued its efforts to strengthen the loan portfolio to raise additional capital and to provide specialized services for Indian tribes and organizations. Deposits increased to $20,680,225 on December 31, 1980 from $14,867,141 on December 31, 1979. Earnings for the year amounted to $457,957 and net worth improved to $1,547,542. During 1980, efforts to begin broadening the Bank's loan base were undertaken and continued in 1981. Attached is Exhibit I which outlines representative loans that the Bank has made in the area of financing tribal economic development and tribal enterprises.

In 1981, progress continued on the Bank's deposits, capital earnings and quality of its loan portfolio. Attached as Exhibit II is a copy of both the 1980 and 1981 annual reports. For 1981, deposits grew to $26,496,481 and earnings amounted to $630,539. Net worth improved to $2,178,081 also in 1981 the Bank closed its subordinated capital note from Minbanc Capital Corporation which marked the first time that an outside investor invested debt capital in AINB. The subordinating note is a ten year note at 10.5% for $250,000.

INNOVATIONS IN LENDING

In order to extend the Bank's services to Indian tribes, reservations and enterprises, it was necessary to develop specialized techniques in lending which heretofore have been unavailable generally from commercial banks located near Indian reservations. Of particular difficulty is the mortgaging of reservation land which is held in trust by the United States Government and generally unavailable to pledge to secure mortgage loans for housing, shopping center development and other commercial development. Therefore, it was necessary to develop specialized techniques. Several of these techniques are listed in the attached Exhibit III and are entitled, "Assignment of Investment Income, Assignment of Grazing Fees, Rentals and Tribal Taxes and Assignment of Lease Rental Income." Also included with the exhibit are various procedures necessary to assist the tribes in obtaining the proper approvals for the pledging of assets to obtain loans for economic development and sample resolution and other legal documents.

We also bring to the Committee's attention, the fact that the Bureau of Indian Affairs administers on behalf of the nation's Indian tribes a sum of $1,500,000,000 in liquid assets mostly Certificates of Deposit in various banks and savings and loans associations around the country. These funds are held in trust by the government for Indian tribes and in general are not available for tribal use for economic development. The interest income on the funds, however, is sometimes utilized by tribes to cover operations and also may be utilized as we have discovered to secure loans for economic development.

INDIAN ECONOMIC DEVELOPMENT SEMINAR

On March 30 and 31, 1982, the Bank sponsored a seminar in Denver, Colorado on Indian economic development and assembled for a two day period a group of successful Indian enterprises, companies that have successful joint venture operations with Indian tribes, commercial bankers that have financed Indian tribal development and experts in both managing and financing agricultural enterprises on Indian reservations. The seminar was conducted in conjunction with the Bank's Ninth Annual Meeting of Shareholders. Attached is a brochure announcing the economic development seminar and a press release on the results.

The Indian Economic Development Seminar was an overwhelming success in that there were a total of 360 persons attending including the Bank's staff and guests. The Seminar was particularly helpful in demonstrating the initiative and innovation of some Indian tribes to develop enterprise with the express purpose of creating jobs on and around the Indian reservation. For example, the Mississippi Band of Choctaw Indians with Chief Phillip Martin were present at the Seminar to review how the tribe created between 400 and 500 jobs within the past five years with very little federal assistance by attracting both a General Motors wire harness assembly plant and a large plant for American Greetings Corporation. The American Greetings Corporation plant was financed through the first tax exempt industrial revenue bond the proceeds of which were used to finance a plant on an Indian reservation. The bond was issued by the City of Philadelphia and was underwritten by the George K. Baum & Associates, Inc. of Kansas City, Kansas. The important factor in this particular innovation is that not only that it was the first tax exempt industrial revenue bond the proceeds of which benefited an Indian reservation but that the tribe worked diligently to convince the authorities in Philadelphia, Miss., that the tribal economy could be integrated with the economy of Philadelphia, Miss., and that the entire area would benefit from the issuance of the tax exempt industrial revenue bond.

ALBUQUERQUE LOAN REPRESENTATIVE OFFICE

In 1977, the Bank established a Loan Production Office or Representative Office in Albuquerque, New Mexico in the Indian Pueblo Cultural Center at 2401 12th Street, Albuquerque, New Mexico. The purpose of the Loan Production Office is to have a facility available and a staff available to handle the processing of loan applications and to deliver the Bank's lending and other finncing services to Indian tribes in the southwest. Through the financial recovery and rebuilding process, the Albuquerque Office was maintained at a status quo until such time as the Bank had sufficient resources to expand its penetration in the area. The plans are now to continue the expansion of the Loan Production Office to offer to the tribes and enterprises in the four state area—Arizona, New Mexico, Colorado and Utah—the Bank's lending services in order to help the Bank fulfill its mission in the southwest.

REQUIREMENTS TO FULFILL THE BANK'S MISSION

The Bank has three basic requirements that are needed to help fulfill its basic mission. These are listed as follows:

1. Assistance by the Federal Government in reinstituting and funding the Indian Finance Act of 1974.
2. Additional capital.
3. The formation of a holding company and permission to establish a new bank owned by a holding company across state lines on an Indian Reservation.

Because of adverse loan experience and a high claim ratio under the Indian Finance Act, the funding for further commitments under the Act sharply was curtailed in 1979, 1980 and 1981. We believe, therefore, that to assist Indian tribes in the transition from dependency on the Federal Government to enterprise development and job creation assistance in the transition is needed in the form of Federal guarantees for loans under the program. Perhaps, what is needed is a division of SBA combined with the Bureau of Indian Affairs to reinstitute a guaranteed loan program. Now that the Bureau of Indian Affairs and the commercial banking system including American Indian National Bank have extensive experience in guaranteed Indian loans, its seems that a resource has been wasted if this experience is not utilized in a continuation or funding of this program. The program is off balance sheet financing in that the program would request that funds be made available only in the event that claims are submitted under the guarantees. Because commercial bankers and personnel at the Bureau of Indian Affairs now have experience with the Indian Finance Act and with guaranteed loans to Indian tribes on reservations, it seems that now is an advantageous time to capitalize on this experience and to reinstitute funding for the Indian Finance Act.

Other initiatives that may be helpful are listed on Exhibit IV attached.

The Bank's capital acquisition program is essential to continued success. We realize that this revolves solely around the private sector and our ability to convince tribes and investors that an investment in AINB is a sound investment. At the present time we are working on raising an additional $1 to $2 million in capital stock and negotiations are under way with certain Indian tribes.

The loan range plan of the Bank is to develop a multi-tribal banking system through the formation of a holding company. The holding company will need to be sufficiently capitalized in order to charter a bank on an Indian reservation somewhere in the northwest or the southwest. In order to obtain the proper legislation to enable the Bank to offer depository services across state lines through a holding company, special legislation will be necessary and it is our plan to approach the Congress and the various state banking authorities at such time as the Bank is sufficiently capitalized and has sufficient earnings and management to expand into the western United States. Attached is Exhibit V which outlines a long range plan for development of a multi-tribal banking system.

CONCLUSION

The American Indian National Bank is the first effort by the American Indian people in the history of our country to charter a financial institution for the benefit of Indian tribes and people toward the goal of consolidating financial resources and redeploying those resources for economic benefits. The overall objective is to achieve parity with other citizens, businesses and organizations in the United States in the area of obtaining credit to finance economic activity.

Although we are a small, growing and successful minority owned Bank, we have achieved sustained earnings, capital and deposit growth for three consecutive years and we have been able to become effective through the utilization of our limited resources towards helping Indian tribes and people. Because of the enormous challenges ahead to utilize Indian resources for the common goals of less dependency and economic development, assistance from the United States Government is still needed. In our opinion this assistance should take the form of providing transitional financing in the form of the Indian Finance Act of 1974, the support of the American Indian Development Finance Corporation legislation, the passing of the Indian Tribal Tax Status Act and the providing of funding to the Department of Interior and the Bureau of Indian Affairs for their economic development programs. In coming years, assistance will be needed to permit banks to provide depository banking services across state lines especially with banking facilities that are located on Indian reservations. This enabling legislation will permit the American Indian National Bank, for example, to extend its services to provide credit for further economic development.

We are convinced that with the assistance of the United States Government in the form of funding for the transition to less dependency that the American Indian people will achieve parity with other Americans in our nation's economy.

Senator COHEN. The hearing will stand adjourned.

[Whereupon, at 12:10 p.m., the hearing was adjourned, subject to the call of the Chair.]

APPENDIX

Additional Material Received for the Record

Prepared Statement of the Eastern Band of Cherokee Indians, Cherokee, N.C., Prepared by Dean B. Suagee, Tribal Planning Officer

INTRODUCTION

The Eastern Band of Cherokee Indians is pleased that the Senate Select Committee on Indian Affairs has provided Indian Tribes with the opportunity to present written testimony for inclusion in the record of the hearing held on April 29, 1982, on the subject of economic development in Indian Country. Our written testimony addresses one aspect of this subject: the relationship between economic development and the use of renewable resources for meeting energy needs. The term "renewable energy" includes solar energy, wind power, water power, and energy derived from biomass such as trees and other plant matter.

DEVELOPMENT OF RESERVATION ECONOMIES

The meaning of the term "economic development" depends on who is using the term. When the term is applied to Indian Country there" will inevitably be disagreements over priorities and strategies. However, we should be able to agree that a Tribal strategy to develop a reservation economy should include at least two general goals:

(1) Greater self-sufficiency, i.e. making the reservation economy more reliant on local resources and less dependent on resources, goods, and services which can only be obtained from outside the reservation, and

(2) Reaching off-reservation markets, i.e. developing the capacity of the reservation economy to provide resources, goods, and services which are in demand outside reservation boundaries.

The strategies which are used to achieve these goals should, of course, complement each other and should help to create new employment opportunities geared to meeting market demands within and outside reservations.

The condition of reservation economies today is such that the first goal, increased self-sufficiency, cannot be achieved without an inflow of capital from outside, and this inflow of capital must, at least in part, be achieved by selling services, manufactured goods, and/or natural resources to the outside. However, if there is too much emphasis on the sale of natural resources, particularly non-renewable resources or renewable resources harvested in a manner which is not sustainable, the opportunity to achieve local self-sufficiency will likely be lost as the resources are depleted. That most Tribal leaders are aware of this danger has been poined out by Phillip Martin, Chief of the Mississippi Band of Choctaw Indians in his testimony as President of the National Tribal Chairman's Association. Chief Martin expressed criticism of the Bureau of Indian Affairs' Economic Development Strategy because of the Bureau's emphasis on natural resource development. As Chief Martin stated:

"Restricting the proposed economic development grant program to natural resource development projects eliminates a great majority of tribes and does not address the need for multifaceted economic development efforts desired by most tribes—even those tribes with abundant natural resources."

This comment is particularly relevant to energy development. Only a relatively small number of tribes own non-renewable energy resources, but all tribes have renewable energy resources. Some kinds of renewable energy resources, such as forest biomass and streams with hydroelectric generating potential are generally considered to be "natural resources." Other renewable energy resources, such as direct solar energy and the indirect solar energy found in wind, are not

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generally considered to be natural resources. Thus tribes whose only energy resources are the sun and the wind may be excluded from the Bureau's economic development grant program. Yet these are the tribes with the greatest need for assistance because these tribes are in the least favorable position for attracting private capital.

RENEWABLE ENERGY AND ECONOMIC DEVELOPMENT

Renewable energy development can be an important part of any tribe's strategy to achieve the goal of increased self-sufficiency. For those tribes without non-renewable energy resources, the use of renewable energy is the only way in which reservation energy needs can be met through using local resources. Until the use of renewables becomes widespread, the use of non-renewables will continue to drain scarce capital from these reservation economies. Even for those tribes with non-renewable energy resources, renewable energy development is essential to long-term self-sufficiency, especially if the non-renewable resources are exported to off-reservation markets. That Indian people are increasingly aware of the benefits of using renewable energy technologies to meet energy needs is documented in a recently published Directory of Indian Appropriate Technology Projects in the U.S.A. (Designwright's Collaborative; Sante Fe, N.M.; 1981.) Many of the 114 projects included in this Directory are renewable energy projects. It is important to note that renewable energy development can result in a variety of benefits in addition to plugging a leak through which dollars flow out of reservation economies. The potential benefits for the national economy are summarized in the Solar Energy Research Institute's solar/conservation study, entitled A New Prosperity: Building a Sustainable Energy Future, (at page 1) as follows:

"The SERI Study has redefined a stable foundation for growth in the American economy. The pillars of this new prosperity are more efficient energy consumption and economic use of renewable energy resources.

"Specifically, SERI's findings show that through efficiency, the U.S. can achieve a full-employment economy and increase worker productivity, while reducing national energy consumption by nearly 25 percent. * * *

"Some 20 to 30 percent of this reduced demand could be supplied by renewable resources."

The projected decrease in unemployment is associated with a projected increase in profitable business opportunities in energy conservation and renewable energy fields. Another relevant factor is that conservation and renewable energy development is relatively more labor intensive and less capital intensive than non-renewable energy development.

Assuming that SERI's projections are valid, are these projections applicable to economic development on Indian reservations? The answer to this question can, at this time, be based only on judgment. In 1981, a research design was prepared by Oak Ridge National Laboratory for the Bureau of Indian Affairs to gather data and test certain propositions comparing renewable energy development to conventional energy development on Indian reservations. Among the propositions to be tested were the following:

Renewable energy development will create more jobs.

Labor requirements will be for easily available skills.

The jobs created will be initially less-skilled and less-specialized.

The jobs will be long lasting and upgradable.

More retention of local income will result.

Fewer lifestyle changes will emerge.

Lifestyle changes which do emerge will be more compatible with tribal cultural values.

There will be more local autonomy, with more problems solved at the local level.

These propositions were based upon a review of the literature for the society at large, and although empirical support is sketchy, what data there is does tend to support the propositions. Unfortunately, funding was not available to conduct the research to test these propositions. However, it would seem that if some of these propositions are true, they should be taken into consideration by the BIA in allocating scarce funds for stimulating economic development and by the Congress in making appropriations for this purpose.

CAPITAL AND ENERGY

The written testimony submitted by Joe DeLaCruz, Chairman of the Quinault Indian Nation, on behalf of the National Congress of American Indians states that capital scarcity is "the most important factor limiting productive investment throughout Indian country." To address this problem NCAI suggests the establishment of an independent financial institution, to be called the American Indian Development Finance Corporation, which would, among its other characteristics, be authorized to raise funds through the sale of tax exempt bonds. As noted in the testimony presented by Chief Phillip Martin for NTCA and by the Council of Energy Resource Tribes (CERT), the sale of tax exempt bonds is a means of raising funds which has ben denied to Indian tribal governments as a result of rulings by the Internal Revenue Service. Both NTCA and CERT therefore expressed support for legislation to correct this historical inequity—the Indian Tribal Government Tax Status Act (S. 1298; H.R. 3760). The Eastern Band of Cherokee Indians also supports this proposed legislation which would help to address the problem of capital scarcity for developing reservation economies.

The problem of capital scarcity should be considered in light of the capital requirements for energy supplies. The conservation and renewable energy measures proposed by the Solar Energy Research Institute in a New Prosperity would require an incremental investment over the next 20 years in the neighborhood of $800 billion. SERI puts this number in perspective by pointing out that the nation will spend more than seven trillion dollars on energy during the next 20 years and that meeting energy needs through conservation and renewables will be less expensive than expanding supplies of conventional non-renewable energy. SERI also notes that, while the savings to be realized from conservation and renewable options are often based on life-cycle savings in operating costs and fuel costs, for some conservation and renewable options the initial investment is also less expensive than the initial investment in conventional energy supplies.

One of the crucial questions for national policymakers is whether we can afford to invest in both conventional and renewable energy supplies. Given the limits on the availability of capital, can we as a nation afford to tie up a substantial portion of available capital to finance construction of new large coal and nuclear powerplants when investments in decentralized conservation and renewable energy measures could provide for energy needs in a much shorter time-frame and could eliminate the need for new large powerplants? (See the SERI solar/conservation study at pages 325–333.) In a sense, the electric utility industry is in competition with consumers, businesses, and indutsrial facilities which need capital in order to make investments in conservation and renewable energy. If free market principles were in operation and all parties had easy access to accurate information, this might be a healthy situation. But the free market has been distorted by government regulation and subsidization of conventional energy supplies. (SERI estimates the annual subsidy to have been $6.5 billion in 1977.) Thus, potential investors in conservation and renewables find themselves at a disadvantage in competing for capital.

Congress has enacted a considerable amount of legislation to help stimulate energy conservation and renewable energy measures. Some of this legislation is discussed in a recent report by the Office of Technology Assessment (OTA) entitled An Assessment of Technology for Local Development. Among the most important enactments for helping potential investors to deal with the problem of obtaining the capital needed for the initial investment in conservation and renewables are: (a) the tax credits enacted as part of the National Energy Act of 1978 (Pub. L. 95–618), and (b) the grant and subsidized loan provisions of the Solar Energy and Energy Conservation Bank created by the Energy Security Act. (Pub. L. 96–294).

In terms of stimulating conservation and renewable energy measures by reservation Indians, the Solar and Conservation Bank is far more important than the tax credits. The Solar Lobby, a Washington-based organization, has estimated that the tax credits are only helpful for families with annual income above $22,000. The great majority of Indian families fall below this level. However, the tax credits are important for economic development strategies which seek to reach off-reservation markets.

The Reagan Administration is reported to be opposed to both the tax credits and the Solar and Conservation Bank. It has recommended elimination of the tax credits and it has resisted implementation of the Solar and Conservation Bank. At the same time that it is opposing these measures which were intended in part to compensate for the Federal subsidies to conventional energy supplies,

the Administration has succeeded in substantially increasing these federal subsidies, particularly with respect to nuclear energy. This is at a time when a number of utilities are in serious financial trouble as a result of unsound investments in nuclear power plant construction.

Congress should stand firm for the energy tax credits and insist on implementation of the Solar Energy and Energy Conservation Bank. These two legislative measures may be crucial to the success of tribal economic development strategies which emphasize renewable energy development.

INFORMATION ABOUT CONSERVATION AND RENEWABLES

Both the SERI study and the OTA study cited earlier in this testimony made numerous recommendations regarding the importance of the Federal Government's role in providing information about conservation and renewables and the need for improving the ways in which this role is carried out. However, the Reagan Administration apparently has decided to disregard such recommendations and is reported to believe that providing accurate, reliable information to the public regarding conservation and renewables is not an appropriate role for the Federal Government. The Administration has also taken action to stop implementation of the Residential Conservation Service (RCS) which was authorized in 1978 under Title II of the National Energy Conservation Policy Act. The RCS program would have required most electric utilities to provide energy audits at low cost upon request by residential customers. (We note that such energy audits are not available on our reservation because small utilities such as the one that serves our reservation are not required to provide this service.) The RCS program could help to capture some of the potential for energy savings in existing buildings through cost-effective conservation measures. For example, the SERI study predicts that energy consumption for heating and cooling existing residential buildings which will still be occupied in the year 2000 could be reduced by 5.45 quadrillion BTU (Quads), or roughly 6% of total current national energy consumption. Further savings of .8 Quad (1% of total national consumption) could be achieved through cost-effective solar retrofit measures. (SERI study at pages 14–15.)

The first step in deciding which conservation and solar measures should be adopted is an energy audit. Not only would the RCS program have required most electric utilities to provide such audits, the RCS program would also have provided grants for training energy auditors. Eliminating funding for this informational program is a false economy of grand scale.

The elimination of the RCS program has several implications for the development of reservation economies, some of which are obvious, such as inhibiting efforts to reduce local dependency on off-reservation energy suppliers. Perhaps the most important implication is not so obvious. The SERI study sees the need for a new major industry that specializes in retrofitting existing buildings to save energy (pages 27–28). The RCS program could be the catalyst which helps Indian Tribes, organizations, and individuals to get into this potentially lucrative business.

The RCS program should not only be retained but should be enhanced as well along the lines recommended in the SERI study. In addition, Congress should insure that the RCS program is available on all reservations.

CONCLUSION

In summary, the role of renewable energy development should be given specific consideration in the development and implementation of a federal program to stimulate development of reservation economies. While this is only one aspect of such a program it is an important aspect since it can help to both reduce dependence on off-reservation markets and improve Indian capabilities to offer goods and services to those off-reservation markets.

Congress should guard the legislative gains which have been enacted over the past decade. Of particular importance are the Solar Energy and Energy Conservation Bank and the Residential Conservation Service. Congress should also give close scrutiny to the recommendations of studies such as the SERI and OTA studies cited in this testimony. This is especially important in light of the Administration's disregard of such studies and recommendations.

Again, we appreciate the opportunity to present this written testimony.

RESPONSE TO THE REAGAN ADMINISTRATION'S DRAFT PRESIDENTIAL POLICY STATEMENT ON INDIAN AFFAIRS, SUBMITTED BY TERRANCE J. BROWN, ASSOCIATES

INTRODUCTION

There are few tribal leaders who would dispute the need for a clearcut statement of federal policy in the area of Indian Affairs. Since the 1950's alone, federally recognized tribes have been subjected to a series of conflicting policies that contributed little to the development and stabilization of tribes as governmental entities. In the 1950's the Eisenhower Administration sought to destroy tribal governments by transferring federal jurisdiction and trust responsibilities to state governments and by tribal termination. The primary accomplishment of this policy was the displacement of Indian people from rural to urban poverty and the dissipation of valuable tribal assets. In the 1960's, some of the consequences of the termination policy were reversed as a result of funding programs initiated as a part of the Johnson Administration's "war on poverty." While these programs did increase the level of services on many reservations, it should be stressed that they served Indian people as a part of the general, low-income population. These anti-poverty programs were unresponsive to the need to define and stabilize tribes as governmental entities. As a consequence, when the Nixon Administration made a commitment to a policy of Indian Self-Determination, a major problem it confronted was to nurture and facilitate the development of tribal capacity to carry out the functions of government inherent in the concept of sovereignty. While the foundations for tribal self-government were laid during that Administration, Indian tribes entered the 1980's confronted with threats of termination and abrogation of treaties. These threats are traceable to the white backlash created by court decisions favorable to Indians in the areas of treaty rights and trust responsibility. Reluctant to confront the forces of backlash, the Carter Administration approached Indian Affairs with a policy of having no policy.

These trends are summarized in their response to the "Proposed Presidential Policy Statement On Indian Affairs" because they are a factor in how tribes will respond to that policy. It was against the backdrop of policies of the 1950's to the 1970's that tribal leaders shifted their support to this Administration during the 1980 Presidential campaign. Issues critical to Indian tribes had been addressed to the Carter Administration. The response they received was silence. When the same issues were raised with the Reagan campaign, the response was a commitment to tribes in the following areas:[1]

(i) Acknowledgment of tribal sovereignty through government-to-government consultation on critical Indian issues;

(ii) Increased accountability of government agencies for providing services to Indian people;

(iii) Restructuring of program guidelines, administration, and services to ensure their responsiveness to the needs and priorities of tribal communities.

Based on these representations and their potential to reverse the adverse consequences of prior Administrations' policies, many tribal leaders supported President Reagan in his candidacy.

The significance of President Reagan's campaign pronouncements did not cease with his election as President. For Indian people, these pronouncements became the yardstick by which his honesty, fairness, and commitment to coordinating federal resources to ensure constructive responses to their problems would be measured. Viewed in this context, the draft policy statement raised a number of serious questions in the following areas:

(i) Whether the proposal to shift governmental functions from the federal to the tribal level is merely a pretext for termination of Indian tribes;

(ii) Whether the definition of trust responsibility vis-a-vis natural resources increases the likelihood that natural resources will be developed and/or exploited in a manner that is detrimental to tribes but insulates the federal government from any potential liability for such detrimental consequences; and

(iii) Whether the proposal for increasing Indian tribes' responsibilities for capital investment on reservations will also increase tribal liability to private investors thereby resulting in encumbrances on valuable tribal assets.

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[1] Statement by Hon. Ronald Reagan, The American Indian and Alaskan Native Leadership Meeting. Sioux Falls, S. Dak. Oct. 14, 1980.

Ultimately, the success of the Administration's Indian policy will hinge upon its thoroughness and articulateness in addressing each of these areas of concern.

In the following pages, a number of issues are raised that we feel are central to any discussion and development of a final policy statement on Indian Affairs. These issues include tribal sovereignty, federal administration of Indian Affairs, and the interrelationship of tribal and other governments. While this is by no means a comprehensive list, it provides a starting point for developing a cohesive articulate policy to govern federal Indian tribal relations.

(A) Tribal sovereignty

A great deal of lip service has been paid in recent years to the governmental sovereignty of tribes. At the same time, those elements that must be present to exercise tribal sovereignty, (i.e. legislative, executive, and judicial institutions), have been treated in a manner that is best described as "benign neglect." Federal policy makers and agencies have ignored the reality that governmental sovereignty is a two-part equation. One side of that equation is the people governed. Through their legislative bodies, (in this instance tribal governments), the people identify and prioritize their needs. Authority is delegated by the people governed to the governing body to create whatever institutions or service mechanisms are necessary to serve their needs and priorities. On the other side of that equation is the government itself. That government is responsible for exercising its authority, as delegated, to raise revenues, provide services and monitor the conduct of individual and institutional behaviour. The scope of that government's authority to act relates back to the people governed.

States and local governments have had over two centuries to perfect this equation. As a consequence, an infrastructure has evolved whereby the state and local citizenry have delegated authority to their governments to expend revenues for the purpose of public transportation; income maintenance; social services such as health, education and elderly care; law and order; environmental protection and employment. These demands for services have translated themselves into a system of statutes authorizing the creation of service institutions and the monitoring of their performance.

As a concomitant of the state or local government's authority to provide service, each has the legal authority to raise revenues to pay for them. In exercising that authority, states and local governments have developed numerous mechanisms for funding public services. By 1973, as chart No. 1 illustrates,[2] state governments have developed an extensive system of taxation to provide revenues necessary for governmental services and operations. The areas of taxation include sales and gross receipts, individual and corporate income tax, license taxes, and taxes on personal property and death and gift transactions.

Despite the resources at their disposal to raise revenues, despite the breadth of their legal authority, it should be emphasized that neither state nor local governments have been financially autonomous. As Maxwell and Aronson noted in their study entitled Financing State and Local Governments, ". . . For many decades neither the state nor local governments have depended wholly on revenue derived from their own sources. Annual intergovernmental transfers have been made, principally through grants-in-aid."[3] Stated in more concrete terms, according to the Advisory Commission on Intergovernmental Relations (ACIR), in 1980 an estimated 31.7% of the total receipts of state and local governments came from federal grants-in-aid.[4] (See Chart 2).

There is an inherent assumption made by federal legislators and program administrators that governmental sovereignty of state and local governments and that of tribal governments are synonymous. That assumption is both inaccurate and antagonistic to tribal interests for the following reasons. First, the governmental equation is distorted in the instance of tribes. While Indian people define and prioritize their needs for tribal governments, those governments lack the authority to act upon those needs in the same manner as states. For example, prior to implementation tribal constitutions and by-laws must be approved by the Bureau of Indian Affairs. It is not unusual for a tribe to wait several years from the time it submits its proposed constitution and bylaws to receive approval. Similarly, state legislatures have the authority to define the requirements of state citizenship. On the other hand, enrollment as a member of a tribe

[2] James A. Maxwell and J. Richard Aronson, Financing State and Local Governments (Washington, D.C., 1977), p. 42.
[3] Ibid., p. 45.
[4] Advisory Commission on Intergovernmental Relations, "Declining Aid to State and Local Governments" Reprinted in The New York Times, Jan. 20, 1982.

often does not rest with tribal government. It is subject to approval by the Bureau of Indian Affairs. In short, the capacity of tribal governments is dependent upon current federal Indian policy rather than the authority delegated to tribal councils by the people they govern.

The interjection of the federal government into the two-part equation described earlier characterizing state governments also impacts upon how tribal governments deliver services to tribal members. The decision-making process for meeting the needs of tribal members is focussed on the federal agency rather than the tribal level. Members of tribes identify community needs and prioritize them. However, that is where any resemblance to state and local governments ends. While states and local governments are able to raise up to 70% of the revenues required to provide services, Indian tribes depend almost totally upon federal dollars. As a result, the services programmed into tribal communities are determined by factors other than local needs. Thus, despite the crisis that exists in housing on Indian reservations, a policy determination of the federal level that low-income housing is no longer a federal priority will preclude tribes' meeting their members' housing needs. Similarly, with the cutbacks in CETA funding tribes have lost job slots and funds for tribal administration of critical services. The tribal need conflicted with federal program administration priorities and those priorities ulitimately determined the outcome. These examples are not isolated instances, they are part of a pattern. With the shift in policy of this Administration towards the "new federalism", Indian tribes lost critical funding resources in service areas essential to the well-being of tribal members.[5]

As a corollary of this distortion in the governmental sovereignty equation as applied to tribes, the institutional infrastructure has not been allowed to develop adequately at a tribal level. Tribal governments are dependent upon federal funds for their staff. Tribal courts are often the creation of the Bureau of Indian Affairs, (CFR Courts), and staffed by Bureau employees. Thus, a critical institution—the judicial branch of government—is accountable to a federal bureaucracy rather than Indian people. At the federal agency level, funding has either not been allocated or has not been requested for the purpose of developing tribal courts and tribal codes. In the areas of consumer affairs and child welfare alone, tribal courts have been confronted with an increasing number of cases. In many instances there is no legal framework for the tribal courts to rely upon in adjudicating such cases.

A dependency has been created by past federal policies upon Federal institutions for essential tribal services. Health services for Indian people are a function of HHS (Health and Human Services) Indian Health Service. Housing has been a function of the Bureau of Indian Affairs and the Department of Housing and Urban Development. Education of Indian children, with some exceptions, is carried out by state and BIA institutions rather than tribally controlled schools. Roads on Indian reservations are financed through BIA and the Department of Transportation. General assistance for low income Indian families is provided by either the Bureau or HHS's welfare programs. And finally, the primary sources of employment opportunities on Indian reservations are predominantly federal agencies and programs.

One cannot realistically frame a constructive Indian policy without acknowledging these patterns. It is both expensive and time consuming to develop the infrastructure, staff it, and operate it. The level of poverty at the tribal community level has necessitated the federal government playing a dominant role in designing, staffing, and carrying out such services. What is disturbing about the proposed draft policy statement is that it glosses over these realities. If there were a diminished federal role, there would be few or no institutions in many Indian communities to provide essential services. Moreover, given the level of economic poverty within many tribes, neither the manpower nor the funding resources would exist to replace that federal service network.

Any shift in federal funding for Indian tribes from a dominant to a supplemental role must carefully consider the demographic circumstances of tribes. For example, there are few tribes that have 100,000 or more members. Many tribes have 2,000 to 5,000 members. The rural isolation of these tribes from existing service network systems, combined with their small number of members, makes providing services a more costly endeavor. Similarly, all tribes that are eligible for federal recognition are not rich in coal, timber, or energy resources. Their reservations do not contain resources that can be taxed to create a stable

[5] See the May 5, 1982 report of the Senate Select Subcommittee on Indian Affairs to the Senate Committee on the Budget.

revenue base for tribal operations. The lack of employment opportunities on the reservation has deterred educated Indians with skills vital to their tribes' economic development from returning to the reservation to work. These realities must be confronted and addressed before implementing any policy that imposes a requirement upon tribes to provide an increasing percentage of their own funds for services and programs.

(B) Federal Administration of Indian Affairs

The critical issue confronting tribes, which the draft policy does not address is that tribal assumption of programs and services is not simply a matter of will power; it is a matter of resources. The policy draft implies that tribes have been dilatory in assuming their fair share of the governmental burden. This flies in the face of objective fact. More specifically, the Bureau of Indian Affairs has consistently resisted and delayed tribes in contracting for services pursuant to the Indian Self-Determination and Education Act of 1975, (Public Law No. 93–638). Little or no technical assistance has been provided to tribes regarding implementation of the Indian Civil Rights Act of 1968, even in the wake of the Supreme Court's decision in *Martinez* v. *Santa Clara Pueblo*. There is no one division within the Bureau of Indian Affairs qualified or responsible for providing technical assistance to tribes in developing tribal tax policies. The track record of the Bureau of Indian Affairs and the Indian Health Service in implementing Indian preference for positions above the clerical level has been inadequate. Moreover, when tribes have attempted to challenge the negotiation of mineral leases by the Department of Interior which they alleged were unfavorable to the tribe, as the Northern Cheyennes did in the 1970's, their concerns have been disregarded. Similarly, tribal objections to economic development projects that were disruptive to tribal life have been brushed aside.

In order for tribes to attain the degree of economic self-sufficiency contemplated by this draft policy statement, certain conditions must exist on reservations. These include but are not limited to (*i*) an available skilled labor pool; (*ii*) reliable information-technical assistance resources on issues such as taxation, financing economic ventures, contracting and leasehold interests; (*iii*) a service-support system to attract venture capital; (*iv*) a revenue base to subsidize the cost of providing and maintaining services; and (*v*) an accessible money supply to finance ventures at low interest rates and/or preferential credit terms.

The resources that exist on reservation at the present time are inadequate to sustain economic development. The primary source of employment for Indians on their reservations is Bureau services, federal grants and contracts, or tribal government. Each of these sources of employment has diminished as a result of the Reagan Administration's economic policies. To be specific, with the Bureau realignment and reorganization many Indian employees will be RIFed as their jobs are eliminated. The reductions in force will come at a point in time when sources of economic development, educational and health service funds have been reduced by block grant funding or eliminated altogether. That shifts the burden to tribal governments to provide increased employment opportunities for Indian workers displaced by the budget cuts. Since most tribal governments rely heavily upon CETA funds to employ their staffs, with the severe cuts in CETA funding many tribes are not even able to maintain their present workforce level.

As a consequence of these economic policies, tribes are hurt in several ways. First, unemployment on Indian reservations is excessively high. In testimony presented to the Congress on July 19, 1982 Mr. Joseph DeLaCruz, President of the Quinault Nation and President of the National Congress of American Indians noted that BIA figures indicated unemployment on reservations was averaging 31 percent to 46 percent nationally. Some reservations, he indicated, were experiencing 60 percent to 70 percent unemployment.[6] (Unemployment on the Rosebud Sioux Reservation is now at 83 percent according to a recent article in the NIHB Health Reporters.)[7]

A practical response to such high levels of unemployment would be retraining of unemployed adults through CETA, continuing education and vocational technical training programs. However, these are no longer viable options for most reservation communities as a result of current budget proposals by the Administration. More specifically, the following budget costs have been proposed which will

[6] Testimony of Mr. Joseph DeLaCruz regarding S. 1298 before the Subcommitte on Taxation and Debt Management of the Senate Committee on Finance. July 19, 1982.

[7] Jack Anderson "Hospital Funds Go to Pay Bureaucrats," WIHB Health Reporter, Vol. 3, No. 2 (May/June, 1982), 4.

inhibit or eliminate tribal capacity to upgrade members' skills or retrain the unemployed for new vocational areas where there may be increased employment opportunities. (These budget cuts have not been adjusted to reflect a 9 percent inflation factor.)

Item: Adult Education Component of Indian Education. Fiscal year 1982 funding level: $4,695,000. Fiscal year 1983 funding level: $4,008,000. Reduction in funding: $14.6 percent.

Item: Post Secondary Component of BIA operated post secondary schools. Fiscal year 1982 funding level: $8,170,000. Fiscal year 1983 funding level: $6,381,000. Reduction in funding: 21.9 percent.

Item: Comprehensive Employment and Training Title III. Fiscal year 1981 funding level: $152,800,000. Fiscal year 1982 funding level: $89,300,000. Reduction in funding: 41 percent.

These reductions in funding levels for adult education and training are in addition to the elimination of Title IID and VI of CETA from which tribes also received funding and the proposed elimination of service institutions such as the Southwest Indian Polytechnic Institute which provided vocational training to Indians in the Southwest ad elsewhere.[8]

In the absence of employment and training opportunities on the reservation, tribal members are forced to relocate in urban areas. Those who are unskilled and therefore hard to place in jobs place additional demands on the already strained, state administered systems of low-income housing, public assistance, and medical care. (Health care has historically been provided to urban Indians through Indian Health Service. However, the Administration's fiscal year 1983 budget proposal eliminates Indian Health Service for urban centers. This burden will therefore shift to other federal and state funded "medically needy" programs.) Even those with post secondary degrees and experience in white collar jobs will be forced to rely on public benefits because they relocate in urban centers such as Phoenix, Los Angeles, and Chicago where language, cultural background, and racial barriers inhibit employment opportunities for Indian people.

Often referred to as the "brain drain," this outflow of manpower resources diminishes the capacity of tribes to attract light industry onto the reservation. In the absence of a trained and/or trainable labor pool an industry must shoulder the additional cost of importing its workforce in order to establish a reservation-based facility. This substantially increases its start-up costs. When coupled with the fact that other basic services such as health care, road maintenance, banking, housing, and sewage are not available either, there is no incentive for private sector businesses to invest in the reservation economy.

To fail to acknowledge the significance of each of the factors described above in a policy that seeks to shift the burden of government to tribes is, at its best, short sighted. For, it ignores the incapacity of tribes to raise revenues to finance governmental services and benefits. Clearly, in an economy where almost 83 percent of the able-bodied adults are unemployed, income tax is not a viable source of income. In an economy, where the average per capita income is $3,000 per year, a regressive tax such as the sales tax is neither practical nor viable. In an economy where services and institutions are not in place and functional, corporate income tax is a deterrent to economic development. Industries will require tax incentives and other benefits to offset added costs of establishing a reservation-based facility. In short, while tribes may have the potential to assume increased governmental roles, they presently lack the financial and administrative capacity. Current government policies and programs are not likely to develop their capacity.

The question must ultimately be asked whether this draft policy statement is a sincere effort to stabilize tribal governments and remove barriers to tribal autonomy or a pretext for giving the federal trust responsibility its narrowest possible legal construction. If the intent is the former, then this policy statement cannot avoid the difficult economic realities confronting Indian tribes. For example, it must recognize that before tribal governments can experience any economic autonomy they must get out from under the diminution of tribal resources by the burden of poverty. At present, the reservation economy is inadequate to support tribal members' basic living needs:

In fiscal year 1982, on the seventy reservations participating in the Community Food Distribution Program between 82,000 and 91,000 needy Indian families were served each month between October, 1981 and June, 1982.[9]

[8] "Report of the Senate Select Subcommittee on Indian Affairs to the Senate Committee on the Budget," May 5, 1982, pp. 11–12.

[9] USDA: Food and Nutrition Service Data on Needy Family Program Participation on Indian Reservations for October 1981 to June 1982.

In fiscal year 1982 social services in the Bureau of Indian Affairs carried an average monthly caseload of 57,750 persons. It is estimated that caseload will increase to 63,932 persons in fiscal year 1983.[10]

In 1980 witnesses for the Department of Interior testified before the Senate Select Committee on Indian Affairs that at least $15,000,000 would be required to adequately fund the Indian Child Welfare Act of 1978 (Public Law No. 95-608). This Act established a program for the care of Indian children who are abandoned, neglected, or handicapped.[11]

It is costly to tribes to remediate these symptoms of poverty. While they have no choice but to do so, funding critical social services siphons-off already limited funds and staff resources away from those activities that will enhance the tribe's economic base and revenue flow. Clearly, providing food assistance, general relief funds, and child welfare assistance does not create taxable income to meet the minimum requirements of survival in a stagnant economy. This locks tribes into a mode of operation that precludes using existing resources to extend the reservation economic base and thereby decrease dependence on federal funding.

The severity of this problem is best illustrated by the tribal law enforcement program. In a contract study of law enforcement on Indian reservations conducted on or about 1977, eighty-eight reservations submitted plans dealing with law enforcement problems and programs to deal with them. The tribes were required to develop funding estimates for their programs and identify potential sources of funding to implement the programs. It is significant to note that the participating tribes anticipated the tribes' capacity to fund these programs to be 12 percent of total funding. Approximately 83 percent was to be provided by federal sources, (43 percent from BIA programs; 6 percent from CETA; 24 percent from Economic Development Administration; 9 percent from Law Enforcement Administration Assistance; and 0.6 percent from Revenue Sharing) and 5 percent was to come from "Other" sources.[12]

This reliance on federal resources characterizes tribal enterprises as well as tribal services. A recent analysis of the impact of CETA cuts on Indian workers and communities underscores the crucial role of federal funds in the tribal economy. Among the examples cited by this analysis are Papago Farms, a tribal enterprise which meets 25 percent of its manpower needs through CETA/Public Services Employment. Similarly, Papago Livestock Center—the only livestock center on the reservation—has 40 percent of its labor force provided by CETA. Termination of PSE will force the Center to cut back on services it presently provides, such as maintaining livestock pens and feed and providing veterinary services to tribal ranches.[13]

These realities can only lead one to the following conclusion. The natural resources that presently exist on Indian reservations are insufficient to finance the cost of providing governmental services to tribal members at an adequate level. Indian tribes can achieve economic sovereignty only if the federal government initiates a policy that maximizes coordination of existing federal resources, implements funding mechanisms that are more responsive to the needs of tribal governments, and creates incentives for private sector development of reservation-based enterprises and investment in tribally-owned businesses.

When measured against these prerequisites, the draft policy statement is seriously lacking. While it emphasizes that tribes must reduce their dependence upon federal funding, it makes no long-term commitments and offers no strategies to enable tribal governments to assume increased financial responsibility. While it imposes as a condition precedent to full acknowledgment of tribal sovereignty (i) tribal responsibility for an orderly transfer of functions from the federal to the tribal level; (ii) tribal accountability for use of federal funds; and (iii) tribal liability for effectuation of laws and regulations consistent with the Indian Civil Rights Act of 1968, it makes no commitment of resources or technical assistance in meeting those conditions.

In return for shouldering this burden, the policy statement proposes to grant tribal governments what they already have by law and judicial decision: the status of sovereign governments. It proposes to reward tribes with simpler procedures for funding and operating federal programs to deliver services to tribal members by reducing funding levels and substituting funding structures such as

[10] "Report of the Senate Select Subcommittee on Indian Affairs," p. 20.
[11] Ibid., p. 22.
[12] "Preliminary Analysis of Guidebook II." Reservation Law Enforcement Improvement Plan: Bureau of Indian Affairs, Division of Law Enforcement Services (November 1977), p. 14.
[13] "Impact of CETA Budget Cuts on Indian Workers and Communities," p. 6.

set-a-sides under state block grants--both of which are clearly disadvantageous to tribes. (Set-a-sides to Indian tribes under the Community Services Block Grant ranged from a low of $915 to a high of $164,505 in FY '82.[14] Funding levels for most tribes were inadequate to operate a service project for a year). It also proposes to carry out its trust responsibility to protect tribal water resources subject to the proviso that it ascertain the value of the resource for which the water is being claimed.

(C) Interrelationship of tribal and other governments

An obvious consequence of this policy statement is that it redefines the relationship between tribal and other governments. With regard to the federal government, it defines a passive role in providing services to tribes and protecting tribal assets. The federal government will supplement the funding of services. The responsibility will be shifted to tribes to aggressively seek out and create a revenue flow on the reservation to underwrite the cost of services to tribal members. The federal government will quantify and selectively protect tribal resources. The burden will shift to tribes to assess their own natural resource potential, ensure that tribal transactions are entered into at arm's length negotiations, and create investment incentives using tribal assets to attract business ventures onto the reservations.

By relegating the federal government to a passive, supplemental role in Indian Affairs this policy statement leaves many issues critical to tribal economic development unresolved. For example, as tribal governments emerge as state-like governments, are they to be treated as states for the purpose of national environmental protection and labor relations statutes? As the responsibility of tribal governments increases, will they be accorded increased jurisdiction in criminal and civil matters over Indian and non-Indian people within the reservation's boundaries? As the federal role in tribal government diminishes and tribal investment in capital ventures increases, what will be the scope of tribal liability in such joint-ventures? Will "sharing the risk" open the door to encumbrance of tribal assets by private sector investors? Will tribes enjoy the full range of revenue-raising powers presently enjoyed by states such as taxation and issuance of bonds? How is the balance to be struck between the authority of tribes and the governments of the states in which their reservations are located with regard to taxation of reservation-based corporate activity? Will the emergence of tribes as state-like governments compel states to extend the principle of comity to tribal laws?

In the past, tribal independence from state interference has been a direct function of the federal government's actively asserting that authority to act in Indian Affairs was reserved by constitution and statute to the federal level of government. The federal presence did not always deter states from interfering in tribal matters such as the welfare of Indian children. However, it did minimize the incidence of such encroachments upon tribal authority. In defining a passive role for the federal government in tribal affairs, this policy draft appears to encourage states to improperly assume jurisdiction over tribes without fear of redress. Should this occur as a consequence of the diminished federal role in Indian Affairs, we can expect that tribal governments will not stabilize their authority and thrive economically. To the extent that state jurisdiction over tribes is unchecked, it will result in the erosion of tribal authority and the appropriation of tribal assets. Thus, the question of the interrelationship of tribal assets. Thus, the question of the interrelationship of tribal and other governments cannot be left to chance. It must be acknowledged by any policy statement promulgated by this Administration.

CONCLUSION

It is not the intent of this analysis of the draft Presidential Policy Statement on Indian Affairs to dissuade the Executive Branch from formulating an Indian policy. Rather, it is the purpose of this analysis to encourage the development of a policy statement that is consistent with the campaign commitments of this Administration to Indian people.

The present economic climate demands that creative, innovative solutions be designed to address the economic problems of tribes. The options available to this Administration are countless. They encompass both administrative and legislative strategies such as,

[14] "Community Services Block Grant Allotments for States: Fiscal 1982," chart compiled by the Office of Community Services: Department of Health and Human Services.

(1) The issuance of an Executive Order on Indian Affairs establishing an interagency council of cabinet officials to formulate governmentwide guidelines to tribal funding. At a minimum, these guidelines could require data collection and sharing on tribal needs, interagency coordination in planning and funding of tribal grants, and uniform standards for grant application and administration by tribes.

(ii) The establishment of a private sector advisory group to assess barriers to reservation economic development. This advisory panel could recommend strategies for attracting capital investments onto the reservation, assess the viability of the Indian Financing Act and related legislation, design parameters for a system of taxation for implementation by tribes to increase their capacity to raise revenues, identify technical assistance resources to be utilized by tribes in such technical areas as financing tribal enterprises, risk management in financial ventures and exploitation of tribal natural resources.

(iii) The drafting of enterprise zone legislation specifically adapted to the economic needs of tribal governments.

We hope that these concerns and suggestions will be given careful consideration in drafting the final Presidential Policy.

Chart 1

Percentage Distribution and Rank* of Major Sources of State Tax Collections, 1922, 1938, 1948, 1968, and 1973

Type of tax	*1922*	*1938*	*1948*	*1968*	*1973*
	Percentage of total state tax revenue				
Sales and gross receipts	14.1	53.4	59.9	57.6	54.5
General	...	14.3	21.9	28.7	29.1
Selective	14.1	39.2	38.0	28.9	25.5
Motor fuel	1.4	24.8	18.7	14.2	11.8
Alcoholic beverage	...	5.6	6.3	3.1	2.7
Tobacco product	...	1.8	5.0	5.2	4.6
Other	12.8	7.0	8.0	6.4	6.4
Income	10.7	12.2	16.1	24.0	30.9
Individual	4.5	7.0	7.4	17.1	22.9
Corporate	6.1	5.3	8.7	6.9	8.0
License	31.5	16.0	14.5	10.6	8.5
Motor vehicle and operators'	16.1	11.3	8.8	6.8	5.3
Miscellaneous	15.4	4.5	5.7	3.8	3.1
Other	43.7	18.4	9.6	7.7	6.1
Property	36.7	7.8	4.1	2.5	1.9
Death and gift	7.0	4.5	2.7	2.4	2.1
Miscellaneous	...	6.1	2.8	2.8	2.1
	Rank in importance as source of state tax revenue				
Property	1	4	8	8	9
Motor vehicle and operators' license	2	3	3	5	5
Death and gift	3	8	9	9	8
Corporate income	4	7	4	4	4
Individual income	5	5	5	2	2
Motor fuel	6	1	2	3	3
General sales	...	2	1	1	1
Alcoholic beverage	...	6	6	7	7
Tobacco product	...	9	7	6	6

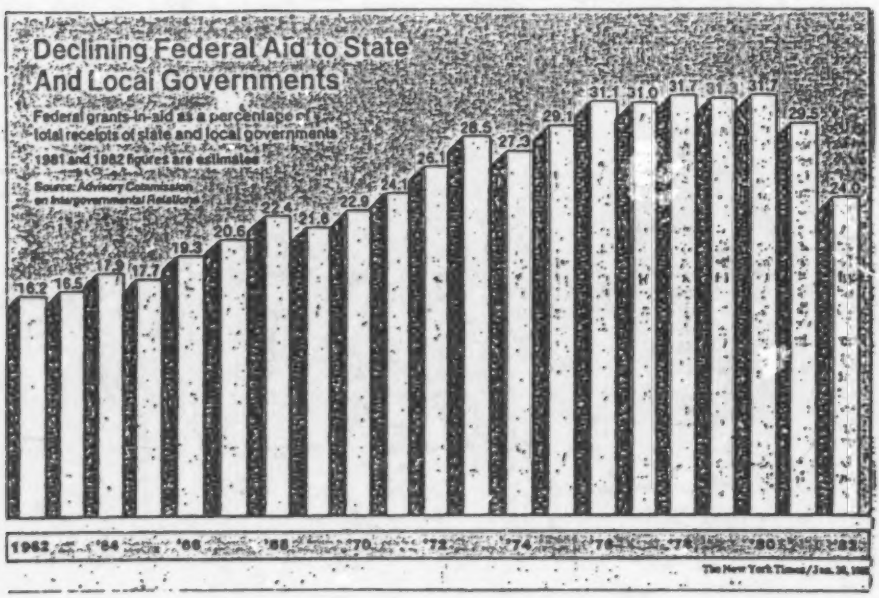
Sources: Census Bureau, *Historical Statistics of the United States: Colonial Times to 1957* (GPO, 1960), pp. 727-28; and Census Bureau, *State Government Finances in 1968*, pp. 20-22, and *in 1973*, pp. 19-21. Figures are rounded.

*

(Reprinted from Maxwell and Aronson, FINANCING STATE AND LOCAL GOVERNMENTS, Studies of Government Finance, The Brookings Institution; Washington, D.C., 1977 at p.42).

Chart 2

Declining Federal Aid to State And Local Governments*



*(Source: Advisory Commission on Intergovernmental Relations, as reprinted in the January 20, 1982 NEW YORK TIMES).

TAOS PUEBLO,
Taos, N. Mex., May 13, 1982.

Senator WILLIAM S. COHEN,
Chairman, Senate Select Committee on Indian Affairs,
Senate Office Building, Washington, D.C.

DEAR SENATOR COHEN: On April 29 I was in Washington and had the opportunity to sit in on your hearings on the economic problems facing the Indian nations, especially the problems resulting from the severe impacts of the ongoing budget cuts.

The point was made, I believe directly by you, that the Congress and the Indian nations have to do something to break up the dependency relationship that the Federal Government has created and perpetuated; continuing the present relationship (Trust, dependence) makes tribal "sovereignty" a meaningless concept.

The leaders of Taos Pueblo over the past three years have launched a bold initiative in economic development. You may be interested in some of the details of this program. I enclose a set of papers that your staff may wish to review. In these papers we set forth what the Pueblo is attempting to do, how we intend to achieve the objective of changing the "dependency relationship" with the federal government, and how we take issue with the "solutions" or offsets to the severe budget cuts being proffered to the Indian nations by the Reagan Administration (see letter dated October 27, 1981 to Mr. Wayne Chattin).

These papers seem to me to be pertinent to the substance of the hearings you chaired on April 29. I hope they will be a constructive additional input to your hearings.

Sincerely yours,

WILLIAM T. BURKE,
Director, Economic Development.

TAOS PUEBLO,
Taos, N. Mex., January 21, 1982.

Congressman JAMES L. OBERSTAR,
Chairman, Subcommittee on Economic Development, Committee on Public Works,
U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN OBERSTAR: This is in response to your letter of December 21 regarding the prospect for extending EDA.

I have had my staff complete the questionnaire to the extent we are knowledgable on the particular questions. However, I believe the most constructive contribution we can make on the Congressional deliberations is not on the questionnaire but in the following commentary.

We are greatly concerned that the deficiencies in the EDA operations, and they are legend, will dictate the future of EDA more than will the NEED that EDA was set-up to satisfy, a need that still is very much in evidence. Taos Pueblo has been directly involved in only two EDA projects. These have been for construction of two buildings to provide local government services. While both projects have been successful, there was only limited EDA input aside from the funding. Now the Pueblo is engaged in a major development effort that greatly requires the funding input of EDA. If that funding source is denied us, on projects which we feel are very competitive, our development initiative may well be curtailed before it really gets underway.

This initiative reflects our determination to reduce our dependence on federal assistance. Within the past few months we have added to our staff a Director of Economic Development with extensive overseas experience in working in our type of socio/economic situation. Subsequently, we brought back to tribal government, as Tribal Programs Administrator, a tribal member who was president of a consulting firm in Dallas which specialized in small business development. With this combination of expertise and certain assets we have on the reservation, we realistically expect to develop a program to create jobs and income in a situation where the hard-core unemployment rate fluctuates between 40–60 percent and per capita income is approximately $2,500 per year.

I enclose a memorandum dated March 10, 1981 from our Director of Economic Development to the Director of Tribal Managers Corps/Bureau of Indian Affairs. You will note our determination to employ the private sector extensively in our development process. Also enclosed is a report on the first six months of

the program. Please note that it is initiatives as this that the EDA was conceived to support. We have made a major commitment of staff and resources to this effort and we are very apprehensive about having both the commitment and the promise aborted because of the past "sins" of the EDA operation.

In the questionnaire you acknowledge one of the prime problems of the EDA—a "pork barrel" program afflicted with the worst kind of bureaucracy and politics. Our knowledge of the operation certainly supports this observation. Not only were federal funds virtually "shoveled out" under pressure of local, state, and federal politics, but very little sound economic analysis was ever undertaken. This was due in part to the fact that politics and pork-barreling rather than economics and sound programming were the prime considerations. Another factor surely was the capability of EDA staff at the federal and state levels to undertake the needed assessments. Staff invariably were political appointees who were not experienced or competent to ask the hard questions of loan applicants or to provide the necessary follow-up and supervision on loan approvals. Too often consultants were employed, also with gross political overtones, who were no more capable than EDA staff. If that kind of operation is to continue, without substantial change, then EDA should not be extended at all. That kind of operation is a discredit to the American taxpayer, to the Congress that sanctions it, and to the recipients who are a party to the incredible waste and incompetence.

A better alternative to meet the pressing need for development at the state and local levels is possible. To the extent you find a way to create it, I urge the following kind of EDA:

An organization insulated, to the extent practicable, from the burden of local, state, and Congressional politics. An organization such as the World Bank or the verious international regional development banks is called for; they do sound planning in advance of approval and continue to monitor the projects afterward, since they are interested not only in supplying the development funds but in the success of each undertaking. Block grants to the state would not be an improvement on current operations. The same deficiencies already evident would be even worse at the state level. And the resources provided would be diffused across the states. This is *not* the way to go.

A staff which is eminently qualified to provide the programming, technical, economic analysis that is needed. This objective could be enhanced perhaps with the composition of the staff (even at state level) determined by a consulting arrangement with one of the international financial institutions. The U.S. certainly has poured enough funds and U.S. expertise into these organizations through the years to enable us to reap a return now. EDA needs to develop a cadre of experienced development people who can work professionally and competently with local development personnel, with local Chambers of Commerce, and with state and local elected officials—while being insulated from blatant political pork-barreling.

An arrangement whereby totally unqualified consultants are excluded from EDA operations. This could be achieved simply by developing a list of prequalified firms with expertise in particular areas. To qualify, firms would have to meet a strict set of criteria of past experience and performance. To be sure, disruptive politics would still be evident in contract awards as well as project approvals, but much could be done to change for the better the poor record of EDA operations.

For many decades the policy of the federal government, whether explicit or implicit, was to create a dependency relationship between the federal government and the Indian nations. Now the federal government, abruptly, is altering that relationship with severe budget cuts that impact far more on the Indian world than they do even in the inner cities; the cuts affect not only our economic well-being but our fundamental capability to maintain effective government. Tao Pueblo is determined to make the adjustments we need to make, as we have for a thousand years, to maintain our dignity and to enhance our sense and reality of distinctive self-reliance.

A strengthened and viable EDA can provide a bridge from our "have-not" present to a future which will ensure preservation of our tribal ways—which precede by hundreds of years even the arrival of your earliest forefathers to our shores and mountains in the 15th century.

I sincerely hope you can find a way to revitalize and continue the EDA. Please let me know if you have need of personnel testimony before the Subcommittee on Economic Development regarding the vital requirement, and the possibilities, for an EDA function in the Indian world.

TONY REYNA,
Governor, Taos Pueblo.

TAOS PUEBLO,
Taos, N. Mex., October 27, 1981.

MR. WAYNE CHATTIN,
Office of the Assistant Secretary,
Department of the Interior,
Washington, D.C.

DEAR WAYNE: The purpose of this letter is to follow up on the private discussions you had in Anchorage with the Taos delegation and to reiterate certain points we made in the formal sessions on economic development.

We sincerely appreciate the difficulties faced by Ken Smith in his efforts to live within the budget constraints imposed by the Congress and the Administration and his concurrent desire to mitigate the impacts of the cuts on the Indian world. It is no easy balancing act. We do, however, want to point out what we see as contradictions in current BIA policy which could prove to be disincentives to some tribes in their movement toward greater self-reliance.

Three years ago, unlike most other tribes in the Eight Northern Pueblo's Association (and perhaps even more wide-spread), Taos Pueblo began to set aside resources in the BIA's Zero Base Budget process in those areas where we felt our needs would be greatest in the coming years. We felt the best way to assert self-determination and realize a greater degree of self-reliance was through the development of an economic base which would provide income and jobs for tribal members. To achieve this, we increased allotted funds to the area of "Business Development" and "Self-Determination." A concentrated effort to pursue our economic development objectives was undertaken, in careful project planning and in enlisting the aid of otherwise unavailable technical help through the BIA's Tribal Managers Corps.

The program is well underway. The prospects for several viable projects in joint ventures with the private sector are more promising today than they were six months ago. However, the funds which we need to further examine these prospects have now been withdrawn, in the budget cutting process. This is only a few short weeks after your very successful visit here to explain to the Tribal Council the nature of the development program and the strong support given to it in concept by the Administration, and by BIA directly. Your visit was part of an orchestrated effort to further mobilize the resources and minds and attitudes of the tribal leaders and to help lead the tribe toward the unfamiliar goal of less rather than more dependence on the federal government. You and Ted Bryant were especially pointed in your comments and were most successful in your efforts. Given the subsequent developments on the budget and the apparent sudden reversal of very sound economic and social policy, I am apprehensive about the credibility with the Taos Council (and other tribes) of all of us involved in this grand movement.

The nature of the budget-cutting seems to us to be a direct contradiction to the tenable policies espoused by the President for promoting less reliance on the federal government. Tribes such as Taos, it seems, have been especially penalized for putting so much of their hopes and efforts and allotted funds into the development area. Had they concentrated on the "safe", traditional areas, implicitly accepting total and continued dependence on the BIA, they might have sustained less of a cut-back. I think the budget-cutting process overall will bear that out. In Taos, for example, the tribe's "self-determination" grant for 1982 has been cut by 43 percent, from $115.5 thousand to 66.4. This does not include the 100 percent of "business development" funds (the full $40.6 thousand) that the Pueblo lost as a result of the cuts. Thus the net cut is one of almost 60 percent. More important is the fact that the cut virtually wipes out the prospect for any sound planning in the business area, pursuant to the President's objective.

We desperately need to have some of these funds restored. We need to get the projects on which we are working advanced to the stage where we can approach the private sector for joint ventures or seek other funding outside the federal government. Perhaps a number of "pilot" programs could be authorized, and funded, by BIA If we can succeed here in Taos, the President will be the first to step forward with pride to note that his economic philosophy is sound, that the answer to every national problem does not begin with "The federal government should . . ." On the other hand, if we attempt to proceed toward the self-reliance goal with a budget crippled in this critical area, we very likely will not be able to give these projects the kind of analysis and preparation that will enhance the prospects of success. You will know that too many Indian projects fail because

they are hastily or unwisely prepared. In this day of budget-cutting and belt-tightening everywhere, we can neither afford mistakes nor miss opportunities.

One additional consideration for further encouraging the Congress and Administration to continue to promote development on the reservations is the "flight of capital" argument. Here in Taos we are actively and optimistically engaged in a joint-venture prospect with a firm in California that is very interested in locating in Taos, particularly with a tie-in to the reservation. Another viable option for this firm is to locate in Korea. I think we have a good prospect in this venture. It's the kind of thing that the President has espoused for many years. No one, either in Taos or Washington, wants to see this kind of investment flow outside the country. Excessive budget cuts in this area are not as cost-effective as they might be in other areas of the budget.

The "solutions" or offsets to the cuts appear to us to offer no solace or encouragement. If we look at these offsets closely we see that they are not really offsets or solutions at all:

Self-generated capital.—It has been suggested that the tribes generate their own capital fund by taxing their members. Only a few tribes have a sufficient tax base to make this worthwhile. For tribes with an unemployment rate of 50–60 percent, this is not a viable option to decreased federal support.

Enterprise zones.—The politically strong, large cities will dominate the annual allocation of these zones. Surely the small Indian reservations will not be politically competitive in this exercise. There will be no zones declared in any significant number of reservations, certainly not the smaller ones where the need probably is greatest.

Revenue bonds.—Authorizing tribes to issue bonds is an exercise in futility. Who would rate them, market them, buy them? Without a tax base such as municipalities have, what is the value on the market of such bonds?

Indian Finance Institute.—This calls for a federal input of $40 million a year for three years. Not only is the amount inadequate, given the magnitude of the need, but the possibility of this coming about in the current political/economic situation in Washington is not great—and that is a charitable assessment. We are not persuaded that there is sufficient strength in the "friends in Congress" argument in light of the drastic cuts that occurred in Indian programs in this round of budget tightening.

In short, if this is to be the structure of the federal program for Indians over the next few years, the budget cuts are going to be seen shortly as a very poor cost-effective option. I hope you are successful in convincing those around Ken Smith that a fresh look needs to be taken in the area of cuts in programs that promise to lead toward greater self-sufficiency and self-determination. As I noted above, Ken Smith has an extremely sensitive balancing act to perform, a task that promises to be as thankless as it is difficult. I hope he can find a way to restore some of the cuts imposed specifically on Taos Pueblo, so we can get on with the task that the President says he wants the American people to focus on—realizing less genetic dependence on the federal government.

I am sending this directly to you with a copy to Ken Smith, for information. I am not sure his copy will get directly to him, so I am hopeful you can reiterate these points and our needs to Ken at the earliest opportunity—before the budget cuts get set in concrete.

Sincerely,

PATRICIO ROMERO,
Governor, Pueblo of Taos.

Date: March 10, 1981.
To: John Jollie, Director, Tribal Managers Corps, BIA/DOI.
From: William T. Burke, Director of Economic Development/TMC, Pueblo of Taos.
Subject: Taos Pueblo development program.

The purpose of this memorandum is to provide you with a status report on the TMC program in Taos. I have just returned from my second working visit to the Pueblo. My discussions to date with the tribal administrators on some of the very encouraging early initiatives we are undertaking bode well for the successes we are hoping for in the Taos program. I think it is important to the evolving overall development of the TMC program that I keep you informed on our plans and progress in Taos.

Perhaps the most noteworthy item to report is the strong consensus that we should and can utilize the private sector as a significant resource in the economic development of Taos Pueblo—as opposed to continued reliance almost totally on the BIA and other Federal government components as the primary source of

technical and financial assistance. This is a significant departure from the conventional approach to economic development, but I do not think I am being overly or prematurely optimistic in believing that we can make a substantial positive impact on the economic development needs of the Pueblo through this approach. Moreover, the approach is distinctive and noteworthy. I have personally spent over a decade in similar situations of underdevelopment in Third World economies in numerous countries in the Far East. Our approach there often created problems on top of the problems we were addressing; in many instances the availability of an abundance of U.S. Government funds and technicians obscured the real priorities of the host government, resulted in waste and inefficiencies in project planning and implementation, and tended to create with the donor the very dependency which conceptually we were trying to overcome.

In Taos we have a very refreshing and vigorous determination to reduce and minimize dependence. The Tribal Administrator and his immediate staff are dynamic individuals who will not hesitate to take initiatives in planning and implementation; they are perceptive in understanding their needs, articulate in expressing them, and receptive to change and any suggestions which promise to provide greater independence from external support and to ensure maintenance of the tribal heritage. I look forward eagerly to joining them full-time, sharing my professional expertise with them, and making their problems my own.

Our first priority, time-wise, is agricultural development. The resources are there. The tribe had in the recent past been heavily engaged in agriculture. Resumption of a substantial effort in this area seems very promising. We are asking local BIA staff to give technical advice.

Concurrently, local farmers and businessmen are also being asked to provide technical guidance. It is critically important that the tribe undertake this renewed initiative in agriculture immediately in order to establish water usage patterns and thereby reinforce tribal water rights in the context of the ongoing discussion in the region on future rights to scarce water resources.

Concurrently we are vigorously exploring a wide spectrum of prospective commercial business ventures by the tribe, both for the short and long term. I will provide more details as the projects evolve. We will be drawing on the private sector, both for guidance as well as, possibly, some joint ventures. We will be drawing on the expertise of local universities, on the substantial technical resources of major firms in the West offered to the tribe by the Western Regional Council, on the International Executive Service Corps (retired business executives who have established an excellent record of productive assistance in projects in the Third World) which I will be contacting personally in New York shortly, and on local firms and individuals. Numerous other resources for assistance and cooperation also are being assessed.

In this connection, I want to make special note in this commentary on the assistance provided by Ted Bryant in the discussions last week in Taos. Ted has been instrumental in conceiving and implementing the offer of the Western Regional Council to provide technical help to the tribes. He is an especially dynamic individual oriented to action and results. I was greatly impressed with his performance in taking charge of a meeting of a very large group of people in the course of the various discussions we had and getting constructive results that usually are obtained only from a much smaller working group. Ted is an impressive "take-charge" type who knows Indian problems thoroughly and has a wide range of personal acquaintances in the Indian tribes (he is part Cherokee, I believe). He has an unusual background in the legislative practices (formerly a member of the Colorado legislature), and a strong background in business (currently a member of Deloitte, Haskins and Sells in Denver). Most important, he has a strong belief in the wisdom and the feasibility of an approach in economic development that will emphasize growing independence of the tribes from government assistance through the use of the private sector. Ted, and the ideas he espouses, as well as the resources he can muster, will be extremely helpful to the Tribal Managers Program. He has the perspective and the drive and the commitment that will prove to be uniquely helpful to the Indian tribes.

If we can succeed in Taos in only a part of what we hope to do, it will be a noteworthy achievement in economic development. Our success will be beneficial to the Pueblo of Taos, which is our primary point of interest and concern. But, it will also be helpful to the Tribal Managers Program overall, since Taos is to be the first concerted effort under the TMC program for assisting the tribes. It may also prove to be a pilot experience worthy of note by the President himself. If we can achieve some significant results by relying on individual and tribal initiative,

utilizing the private sector, and decreasing the role of the government in tribal affairs, the President personally in a year or two could well point to the effort in Taos as a microcosm of what he hopes for and believes possible for the country at large. How especially fitting it would be, moreovoer, to have a society of Native Americans, who historically have been so burdened and abused by government "assistance", demonstrate to other Americans that less dependence on government not only is desirable but also possible—to the benefit of all parties.

I do not want to gloss over the substantial problems we have before us in the Taos situation. There are many problems and issues that we currently do not have answers to. But I think we can get them, and the resources to apply to the problems. I honestly and, I think, realistically, believe we can do it. At the very least we will be engaged in a maximum effort, through the initiative and commitment of the forward-looking leaders of the Taos tribe, to demonstrate to any who are interested (perhaps the Congress?) that the answer to *every* economic and social problem in the country does *not* necessarily begin with "The government should . . ."

Advantages of Doing Business at the Taos Pueblo, New Mexico

I. Introduction

The Taos Indians are part of the Pueblo group of tribes living in New Mexico. They have always been a peaceful, agrarian, defense-minded community—thus, the large adobe fortification type living structures for which they are famous.

The Taos people have firmly adhered to their religion and language; the strong, resilient bonds to their pre-Columbian mores and practices enabled them to persevere through four centuries of Spanish, Mexican, and American effort to do away with or dramatically alter the Taos Indian identity. No American Indian tribe has more tenaciously preserved its traditions than the Taos Pueblo.

However, equally true is that few tribes have become more progressive than Taos Pueblo has in the past few years. Through careful use of federal funding opportunities Taos has developed a modern, sophisticated management structure that has turned tribal attention to economic development.

This initiative has not been generated, as is the case in most tribes, but known deposits of natural resources such as petroleum, uranium, coal and others. Rather, it has its roots in a realization on the part of tribal leaders and the community in general that the solution to contemporary social problems endemic to many non-Indian as well as Indian societies—such as alcoholism, family disintegration, unemployment, poverty, malnutrition, community health, etc.—is to get tribal members good jobs. The tribe realizes also that the solution to local governmental problems such as no tax base or general revenues and dependence on federal programs lies in the area of developing tribal enterprises and improving the standard of living of the members of the community.

Thus, as in centuries past, the tribe farsightedly is adapting to contemporary problems by reaching out for new ways, in order to preserve the old.

To this end, we created a Department of Economic Development. Through the Bureau of Indian Affair's Tribal Managers Corps program we acquired an individual intimately familiar with economic development in underdeveloped countries to be director of the department. He is assisted by a highly qualified tribal member.

Enhancing the viability of this new initiative in self-determination through economic development is the distinctive background of the new Tribal Programs Administrator. As a member of Taos Pueblo he brings with him an understanding of tribal ways as well as extensive experience in business development as the president of a private consulting firm in Dallas. The combination of the skills and experience of the new Director of Economic Development and the new Tribal Programs Administrator provides the Pueblo with a distinctive resource of expertise not readily available beforehand and opens up, through each of them, further technical, management, and financial resources.

An added advantage to initiating economic development efforts at this time is the election of the new Governor of Taos Pueblo. He is a private businessman of long standing in the Pueblo community and in the Town of Taos and has for years been involved directly and personally in the economic growth of the general area.

The economic development initiative has four principal goals—(1) to develop tribally owned enterprises, (2) to attract outside clean industry to the reservation, (3) to aid individual tribal members in starting their own businesses, and (4) to enhance the tribe's prospects for participating more fully in the future development of Taos County.

The major barrier to Taos Pueblo's development prospects is a severe shortage of investment capital. The Tribe has sufficient resources to invest in only the most modest of ventures. For this reason a strong initial emphasis is being placed on the second category above, attracting outside clean industry to the reservation. Only in concert with established private enterprise can the Pueblo's economic development effort acquire the momentum it so desperately needs and deserves.

II. LOCATION AND TRANSPORTATION

Taos Pueblo is located adjacent to the Town of Taos, New Mexico—70 miles north of Santa Fe and Los Alamos, and 38 miles south of the Colorado border. Sante Fe is 1½ hours away and Albuquerque 2½ on the same road. In the opposite direction Denver is 5 hours away by auto and about half that to Pueblo, Colorado.

The major north-south routes serving the Taos area are I–25 (Denver-El Paso and Mexico) and U.S. 285 (Denver-Rio Grande Valley of Texas and Mexico). The major east-west route is I–40 (Los Angeles-Dallas), running through Albuquerque.

The nearest international airport is in Albuquerque, with commuter hops going in and out of the Taos Municipal Airport. Passenger rail service from Chicago to Los Angeles is available in Santa Fe.

III. LAND BASE AND STRUCTURES

The Taos Indian Reservation consists of 95,000 acres of the most varied and beautiful land in the country. It extends from the Rio Grande Gorge (a 650 ft. deep ravine which provides the course for the mighty Rio Grande) on the west, to Wheeler Peak (at 13,161 ft. the highest mountain in New Mexico) on the east. It includes within its boundaries flat sagebrush country, prime farming lands, municipal properties, and beautifully forested mountains. Two rivers, the Rio Lucero and the Rio Pueblo, flow through these lands on their way from the Sangre de Cristo mountains to the Rio Grande. A centuries old irrigation system serves the traditional principal pursuit of the people, farming. The sunsets from Taos Pueblo are world famous for their massive, yet subtle beauty.

The Pueblo itself is more famous in its own right, quite removed from its sunsets. Taos Pueblo is a designated national historical site. It is featured in the U.S. Chamber of Commerce promotions of the country and is perhaps one of the most photographed natural tourist sites in the nation. It is very likely the consensus structural symbol of Indian Americana.

The very existence of these five-story, nine hundred year old mud buildings leaves one with the instant and overwhelming feeling that something pretty serious has been going on here for a long time. These two buildings gave birth to and provided a name for the distinctive and flowing pueblo style of architecture predominant in the Southwest for centuries.

It is believed that Taos Pueblo was the largest multi-family, apartment style building complex in the world until the late 19th century, when a larger unit was built in New York City. The Department of Housing and Urban Development has recently provided the first half-million of a multi-million dollar project to completely restore the main buildings.

IV. POPULATION

There are 2,112 Indian people living at the Taos Pueblo who possess a variety of skills. As stated previously, agriculture has been the main occupation for centuries. However, the Taos Indians are probably best known world-wide for their architectural and construction skills and are extensively employed in the adobe construction industry throughout New Mexico.

Taos Pueblo members are also noted for their creativity in micaceous clay pottery making. They additionally engage in the other traditional Southwest Indian crafts of weaving and jewelry making and the Pueblo exhibits distinctive work by Indian artists and sculptors. Their centuries old culture, political insti-

tutions, and community structures are a testament to their stability and maturity.

In addition to the skills they have learned through the ancient ways, the Taos people also have shown marked aptitude for the skills and education required by the modern world. There are Taos members serving in skilled positions at Los Alamos Scientific Laboratory, at nearby Union Carbide Molybdenum Mine, at colleges and universities, and in private industry.

There are approximately 1,300 currently in the active work force of the Pueblo, about evenly divided between male and female. Of the total, about 800 are in the age group ranging from 16 to 45 years. The unemployment rate in the Indian population is high, fluctuating around 50 percent. This reflects the general state of underdevelopment of the regional economy as well as the distinctive lack of opportunity for the Indian component in particular.

The town of Taos has a population of 3,500, while Taos county overall is approximately 20,000. The total labor force in the county is on the order of 9,000–10,000, wih the unemployment rate over the past year at a level of about 15 percent. Thus, there is a substantial pool of labor, with mixed technical and management skills, available for immediate productive use.

In the event a firm expresses responsible interest in locating on the reservation, and provides a list of manpower skills required, an immediate assessment can be undertaken to specifically match the labor supply on and off the reservation with the expressed need.

V. GOVERNMENT

The specialness at Taos Pueblo is in large part due to its unique form of government. The ultimate governing body is the Council of Elders. Individuals become members of the Council by virtue of their prior standing in the community. Thus, the Council is composed of former Governors, War Chiefs, tribal religious leaders, and other officers from the staffs of the Governors and War Chief.

The Council appoints the two principal functional governing bodies—the Governor's Office and the War Chief's Office. The Governor's Office is generally responsible for matters pertaining to life in the village and for the Tribe's dealings with the outside world. The War Chief's office is responsible for matters pertaining to life outside the village walls, and for outlying lands of the reservation.

To provide for continuity and dynamic leadership in the conduct of Tribal Government business the Governor's Office employs a Tribal Programs Administrator, similar to a city manager in function and responsibility. Below the Administrator is a modern management system composed of Departments of Finance, Personnel, and Planning that serve the rest of the organization. All Tribal Programs come under the responsibility of the Tribal Administrator.

VI. THE TAOS LIFESTYLE

The town of Taos and surrounding areas are vibrant and alive with a multitude of recreational, social and cultural activities. Long known world-wide as an artist colony, Taos is much more. The area is excellent for outdoor pursuits such as camping, hiking, hunting, fishing, riding, tennis, and rafting through the magnificent gorge of the Rio Grande River. In addition to these traditional forms of recreation, the area is distinguished by the internationally renowned Taos Ski Valley, one of the finest ski resorts in the Western Hemisphere. There are numerous other ski areas, but of lesser renown, within a half hour of Taos.

Cultural pursuits are many in Taos. In addition to the numerous excellent art galleries, there are several fine museums of Western Culture. Taos is also the home of the New Mexico Music Festival, which features American classical music, and the Taos School of Music, located in the Ski Valley. Taos Fiestas and the Pueblo's San Geronimo Day Celebration have national reputations. A great many foreign visitors, from both Europe and the Orient, come to Taos and the Pueblo in all seasons of the year.

This may make the area sound quite bustling, but rather the Taos lifestyle could be better described as "laid back." Taos hasn't gained its reputation as "The Land of Manana" for nothing. Perhaps we can best describe it as an oasis of quiet and slow pace in the contemporary world of feverish activity and noise. Residents with changing moods for an alternate life style take comfort in the knowledge that it is available within a short driving distance.

Taos is a tri-culture experience, reflecting first the indigenous Indian heritage that goes back 1,000 years . . . 500 years before Columbus stepped ashore on what to him was the "new" world; also present is the dominant Spanish culture first

introduced by Coronado in 1540; and finally there is the Anglo culture infused into the area in the last century. In some respects going to Taos is like enjoying the charm of a foreign country, without leaving the U.S.

VII. TAXATION AND REGULATIONS

Perhaps the foremost advantage to a firm interested in siting at Taos Pueblo is the matrix of possibilities in the area of taxation and industrial regulation. As an Indian reservation Taos is free of any type of state or local taxation. Case law makes it clear that trust and reservation lands also are free from state and municipal zoning laws and regulations.

Noting this is not to suggest that rational laws and regulations are to be ignored and that all the tax advantages enjoyed by the tribe under its special circumstances can or would be extended to the firm in a joint venture arrangement. It is to say that there is a substantial area for negotiation of mutual interests in putting together a joint venture package. The Pueblo is in the process of exploring in depth the legal parameters, and possibilities, for attractive concessions that could be offered. The Pueblo is prepared to explore these possibilities in responsible discussion directly with interested firms.

TAOS PUEBLO,
Taos, N. Mex.

MEMORANDUM

To: Office of the Governor.
From: Office of Economic Development.
Date: December 15, 1981.
Subject: Taos Pueblo Economic Development Program—Progress Report.

This is a report on the six-month period June–November, 1981. I will describe briefly the spectrum of activities/achievements in which we have been involved in the very encouraging development environment you have provided for us. Before the end of the month I expect to have for you a more extensive report detailing the general framework of problems/possibilities in the area of economic development of Taos Pueblo. This more complete report will address the numerous complex factors we have to work with in giving some realistic direction to the development program.

As we address these myriad economic/social/political/governmental factors in the months ahead, and as we further identify and refine the portfolio of project possibilities which will comprise the development program, we will be establishing the foundation for a realistic development package; we will then be in a position to draft a sound development plan which takes into account the physical and financial resources available to the Pueblo and which addresses the desires and the limitations imposed on these activities by the Tribal Council and the community at large.

Thus, the subsequent report will be more in-depth and will look to the future. This report looks to the past, to the period June–November. Following are the areas of our focus, and our achievements as Nelson and I see them:

DEVELOPMENT FRAMEWORK

We are assessin gthe nature and quality and limitations of the resources which specific to Taos Pueblo; we have identified and refined a list of projects which on cursory analysis appear to have good prospects for implementation. However, much more analysis is needed before a selected number of these "project options" can be conceptualized into an "economic development plan." (This will be addressed at length in the subsequent report.)

ASSESSMENT OF EXTERNAL RESOURCES

We are assessing the nature and quality and limitations of the resources which we will need to realistically plan and implement a sound development program. This includes low-cost or no-cost technical assistance from the Western Regional Council through Ted Bryant, the substantial resources of the National Executive Service Corp. in New York, possibly the United Nations (crafts and marketing), The American Indian Services, the BIA, and other aid sources. We also are examining the availability of materiel and funding resources.

BUDGET CUTS

Like everyone else, we have had to make adjustments in what we'd hoped to do with a larger budget. We have experienced 43 percent reduction in our P.L. 93638 Grant funds and a complete elimination of our Business Development funds, for a net cut of almost 60 percent. Thus, many of the things we'd expected to contract out to a consultant we will have to do ourselves. We have spent considerable time on these deliberations and on the subsequent paper work. In the long run, perhaps it is a good development; we will be doing more of the work internally and will have better control. Whether we will have the time to do it all is questionable.

We also attended the NCAI conference in Alaska for discussions with BIA/Washington on the budget cuts. Upon our return we drafted a lengthy paper on the impact of the cuts to Wayne Chattin, Assistant to Ken Smith.

NATIVE PRODUCTS

We spent considerable time trying to keep this operation going by infusing sound management practices into it, establishing cost controls, quality control in the adobe operation, undertaking a cost analysis on the adobe and wood operation, restructuring the labor force, and taking other actions in the adobe production operation. We were successful in turning out about 8,000 bricks in a short period and marketing them under a revised price structure.

I think we demonstrated that it was possible to operate with adequate cost controls and improved management. Prior to closing out the operation we met several payrolls, including vacation severance pay, from production proceeds. We decided to close down the operation because it was suffering from lack of operating capital, it had a substantial debt burden, it was really benefiting only 2 or 3 tribal members (who were "burned out" and leaving the project), and because the operation required an inordinate amount of time from Nelson and myself. This was an opportunity cost that could not be justified in the minimal benefits accruing to the tribe.

The tribal equipment has been inventoried and stored at the training center; it is made available to the tribal community on a low rent basis and provides part-time employment to a tribal member. Thus, the Native Products operation still is earning income for the tribe and the development program.

AGRICULTURAL PROGRAM

The Tribal Council mandated the need for an agricultural development program in order to protect the tribe's water rights. We have taken initiatives with the assistance of the Agriculture Advisory Committee, to encourage tribal members to put into production their small, individual farms and gardens: our two farm aides provided by CETA have this past season plowed 73 fields (107 acres) for 61 tribal members; with the help of heavy equipment from BIA, we have cleared 24 fields, totaling 37.5 acres of plum thorns and other brush; some seeds have been provided through the Freedom From Hunger Foundation; several pieces of needed farming equipment have been obtained from the American Indian Service through Victor Bingham.

We also have done some soil and water analyses on several large tracts of community land, with an eye to putting these into production next spring. We have discussed with the BIA the need for rehabilitating the reservation's irrigation system; with a consultant attached to N. M. State University we have drawn some parameters for a study to determine the agricultural needs/possibilities for the short term.

DELINQUENT ACCOUNTS

We had some $1,600 in delinquent accounts in the Native Products operation and $800 in the Agriculture Program. A carefully drafted letter signed by the Governor was successful in clearing many of these accounts. In some instances where the debts had been neglected for over a year, we now have had token payments; the prospect for further payments is good. The proceeds from these accounts are used to provide part-time employment for an equipment operator in Native Products and for meeting operating costs in the Agriculture Program.

TOURISM DEVELOPMENT

Tourism is the prime asset that can be developed for the benefit of the tribe. We have examined in some depth the costs and feasibility of developing some

products that will generate income for the tribe and for the development program. Among these are: brochure and booklet prepared and approved by the Pueblo, cards, poster, slides, tour guides, slide/video tape presentation, topographic map of the reservation, etc. We also are considering development of a tourist center where tourists can be properly introduced to the history and presence of the Pueblo and where the products noted above—and crafts and concessions—can be sold. Much work needs to be done and the Office of the Governor and the General Tribal Council have to be consulted at length.

SKIA

We are continuing our talks with the California firm that has expressed keen interest in locating a clean, small manufacturing plant on the reservation. We have here the prospect of 400–500 jobs over the long run, and other income and benefits for the tribe. Once talks become more definitive, a report is to be made to the Tribal Council and Governor.

HOTEL

We have developed, for the longer range, the possibility for a distinctive hotel on the perimeter of the reservation. We have made plans for some preliminary contacts with two large hotel firms through Ted Bryant. This prospect offers excellent long term prospects for income and jobs for the tribe in construction, staffing, etc. It would provide a source of employment for tribal college graduates who wish to return to the reservation but are now forced to seek employment elsewhere.

COMMUNITY STORE

We have initiated discussions with BIA and the Solicitor's Office on the legal status of the defunct store. We have examined the prospects, on a preliminary basis, of opening a new store geared to community needs. A recommendation for returning the land and building to the community has been drafted for presentation to the Council, through the Governor's Office.

LAND PURCHASE—KARAVAS

A full month was spent analyzing and negotiating on the prospective purchase of a tract of land in the center of Taos. We drew on the assistance of a professional appraisal firm, on the BIA, on the consulting services of the National Executive Service Corps, and on our own analysis. We recommend, in a formal presentation to the Tribal Council, that the tribe not purchase the land because it was some 50 percent overpriced and because the increase in value of the land over time was contingent on too many variables beyond the control of the tribe—thus it was a simple case of land speculation as the first venture in the tribe's economic development program. Moreover, borrowing to finance the purchase would have drawn down the tribe's borrowing capacity for more tenable purposes. The Council unanimously concurred in our recommendation *not* to buy.

HYDRO PROJECT

We examined the prospect of installing some small generators in the streams, on the basis of a preliminary analysis that suggested feasibility and which promised generation of sufficient power to meet the needs of the entire reservation while generating substantial tribal income. We avoided a costly ($50,000) feasibility study by enlisting the donated services of an engineering firm from Denver to do a computer analysis of several options we had laid out. The conclusion was that the head (drop in height over a given distance of the stream) and total flow were too low to make the project economically viable. With low head and flow the costs of installing the facility would be excessive; the cost of power generated could not compete with that now purchased from the public utility grid. The tribe might take another look at this in 4–5 years.

LA TUATAH

The Council is eager to do something with this building and land in the heart of town. We have considered several possible uses. We will be taking a fresh look at this facility in the months ahead, in conjunction with our evolving tourism development program. One of the most promising uses that we have conceived is a temporary site for the SKIA operation, prior to moving that to an

integrated facility with the hospital and hotel. Refurbishing the building as a temporary home for SKIA would thus release a marketable building for other uses when/if SKIA is relocated.

DOING BUSINESS AT TAOS PUEBLO

We have prepared a preliminary draft of a paper designed to induce selected types of manufacturing firms to locate on the reservation, thus providing jobs and income. Several firms have expressed such interest. We are coordinating this exercise with the Town of Taos and the Chamber of Commerce to develop some demographic data for the area. We also are coordinating with various offices at the state level, namely the Department of Commerce and industry.

PRESCRIBING LEGAL PARAMETERS FOR DEVELOPMENT

One of the most critical elements in the success of the development program is the legal parameters which prescribe what the tribe can and cannot do in its business development; these parameters also provide the basis for negotiating with firms interested in joint ventures with the Pueblo. The Pueblo can offer these firms certain tax advantages that are helpful in inducing the firm to locate here. Very little has been done to define these parameters for the Pueblos of New Mexico. No one seems to understand the legal questions adequately.

It is critically important to our development program that we understand these issues. Thus, we have exchanged correspondence with the Solicitor's Office on this matter, have consulted with Washington, and have drafted a long list of pertinent legal questions for submission to the Solicitor's Office. We intend to submit the list of questions to 3 or 4 other legal sources of aid. Upon receipt of the responses, we will compare and evaluate them and draw up a "definitive" paper on the legal parameters for doing business with Taos Pueblo. This is a document which will be helpful not only to Taos but to the other pueblos as well, as an offshoot of the Taos Pueblo Development Program and as a contribution from the Governor of Taos Pueblo. While working on this important element of the program, Nelson attended an excellent 3-day seminar in Albuquerque. He will soon be the resident expert in New Mexico on this issue.

INTERFACING WITH COMMUNITY

We have taken certain initiatives to encourage the Pueblo to work more closely with the Town of Taos, the local business community, and the Taos Ski Valley. There are many issues that arise in the surrounding community that are of concern to Taos Pueblo. We believe it is in the interest of the tribe to get involved in these issues in the early stages and to protect its interests. There is a symbiotic relationship that exists in which the tribe can help and be helped by the surrounding community. Thus, we have increased the Pueblo's contacts with the town, and initiated a series of helpful discussions with TSV. The Pueblo also has joined the local Chamber of Commerce and is now participating in meetings of the Chamber.

Among the immediate benefits of recent contacts with TSV is the crystallization of an Indian Youth Ski program at reduced rates, the prospect of increased jobs at TSV for tribal members, and active support of TSV in directing skiers to the Pueblo in the low-tourist period of winter. The Pueblo, in turn, is in a position to assist TSV in areas where the Pueblo's interests are not impacted adversely.

RESEARCH LIBRARY

We have begun to put together a small library of selected books on the history of Taos Pueblo and the area. These books will provide research material for the development program and will be available for lending to students and others. The books will be placed in the Governor's Office and can be signed for when borrowed.

HISTOGRAPH

We are preparing a histograph for a dramatic presentation of the history of Taos Pueblo; it will show, in the perspective of time, noteworthy events in the Pueblo's history that pre-date the coming of the Spanish and extend to the present. The histograph when completed will be presented for review/approval/change by the Governor, WarChief, and Tribal Council. It will be used in our tourism brochure and in the briefings that will be presented at the tourism center.

CONCLUDING COMMENT

The matrix of problems in the development environment of Taos Pueblo is considerably more complex and difficult than I foresaw some six months ago, immediately upon my arrival. (I will be discussing this matrix in the subsequent report now being prepared.) A great deal of preparatory work needs to be done before we can embark on the tasks of conceptualizing a formal development plan and implementing it. However, the assets and possibilities for development are also present. Despite the unforeseen difficulties, I believe we can realize a large part of the development potential of the Pueblo. With the full commitment of the tribe and the active cooperation of the tribal leaders, I believe we can create the jobs and income that we envisioned at the outset. I believe we can do this while protecting and strengthening the old ways, while at the same time providing a reliable, Pueblo-based future for the youth of Taos Pueblo.

WILLIAM T. BURKE,
Director, Economic Development.

TAOS PUEBLO, ECONOMIC DEVELOPMENT PROGRAM

I. ECONOMIC DEVELOPMENT

Economic Development, by definition, simply means getting more use out of the resources on hand—getting those resources already in production to produce more and getting into production selected resources that for one reason or another are lying dormant and neglected. The spectrum of resources ranges from physical components such as manpower, land, water, minerals, forests, etc., to such intangibles as a distinctive cultural heritage and longevity or whatever non corporeal entity it is that makes a place or a people or a situation particularly attractive to others outside the resource area.

To initiate the process of development some external resources—technical expertise, funding, materiel—invariably have to be applied. The infusion of external resources into the emonomy sets in motion certain dynamics of change through new forces acting on the society. These forces can have either positive or negative effects on the culture and practices and way of life. To the extent possible, especially in the particular case of Taos Pueblo, the forces have to be controlled and guided so as to preserve the desired features—the traditions and culture and old ways of the tribal community—while mitigating those disruptive impacts that are rooted in poverty, unemployment, alcoholism, and other social and economic problems.

II. WHY A DEVELOPMENT PROGRAM?

The new challenge

Through the centuries since establishment of the Pueblo, circa 1000, numerous forces have impacted severely not only on the physical structure of the Pueblo per se but on the fundamental society of the tribe itself. Among them were frequent raids by Comanches and other tribes from the plains and the surrounding area. In later years, circa seventeenth century to the present, a variety of policies and practices to subjugate and assimilate the tribe were implemented first by the Spanish (1540–1846), and then the U.S. (1846–present). The youth were indoctrined or taken away; land and water rights were forcibly taken or stolen; foreign religion was imposed and the native religious ways were prohibited foreign diseases deciminated the population. Under the U.S., in particular over the past 30–50 years, the tribe was made virtually totally dependent, as a matter of implicit or explicit governamental policy, on external sources of aid.

The ostensible response of the tribe over the centuries, generally, was compliance and acquiescence—in line with the general image of Pueblo Indians as being at peace with their neighbors, in contrast to many of the bellicose tribes around them. But the response was dichotomous, on the one hand overt and cooperative, on the other cover and resistant. Despite the assaults on the native culture, the tribe adhered tenaciously to tribal ways and beliefs. The more repressive and brutal the acts of government and missionary, the more resilient and secretive the tribe became. A shell of secrecy developed which, while precluding outside view of many aspects of the religious and social ways, in effect strengthened the old ways.

The Pueblo was distinctive in resisting, with force of arms, repeated attempts at forcing tribute and other indignities by the "conquerors." Taos rebelled re-

peatedly under the yoke of external domination and was distinctive even among the Pueblos in being the seat of unrest for the governing authorities over several centuries. The major rebellion of 1680, which drove the Spanish back to Mexico, was conceived in Taos and the tribe was still in active rebellion even 5 years after military rule was reimposed over the other Pueblos of New Mexico by the Spanish in 1692.

Thus the tribe has adapted in many ways through the centuries to a multitude of threats to the tribal ways. Only when change was necessary to preserve and protect the old ways was it accepted. As a matter of traditional ways, the Pueblo still has no power or plumbing; the water supply is still the Rio Pueblo which flows from the sacred Blue Lake in the mountains to the north; and the adobe bricks used in the buildings are covered not with modern, durable stucco but with the traditional mud coating from mother earth. However, progressive actions and adaptations to new needs and new ways in the world of the present have not been neglected. A long and costly legal and lobbying battle to regain the sacred Blue Lake culminated in a special act of Congress and the return of Blue Lake in December of 1970. Conservative Taos also was distinctively progressive among the Pueblos in being the first to establish a Central Management System and a position of Tribal Programs Administrator to manage an increasingly complex program of federal assistance and other activities.

The long, proud history of accommodation and resistance to change suggests almost an inevitability of survival of the old ways and culture of the Pueblo. But the dynamics of change in the modern world pose perhaps the greatest threat to survival of the culture in the history of the Pueblo. Like any society with a weak economic base, the Pueblo is beset with classical social and economic problems. The stability of family and community life is threatened by hard-core unemployment which fluctuates between 40 and 60 percent; per capita income is approximately $2,500 per year; 80 percent of the housing stock is in substandard condition; alcoholism and other social problems rooted in despair and poverty are increasing; the portent of further heavy cuts in federal assistance is ominous; and the youth of the community can look only outward . . . away from the tribal culture and community . . . for any vestige of hope and economic security.

Moreover, the combination of forces currently impacting may be even more of a threat to preservation of the old ways than the earlier Indian raids, the policies of governments, the practices of missionaries, or the natural forces of the environment. In this case, because the threat is not overt and external, it is perhaps more ominous and potentially destructive in that it is not so readily and universally perceived as a threat.

The resilience of the tribal community and the survival of the old ways, despite repeated adversity over many centuries, does indeed suggest that Taos Pueblo is not only of the distant past; it suggests, with the certainty of experience, that it is of the far future as well. Such optimism may be well-founded; but it could as well be naive and unrealistic. Actions or non-actions rooted in that optimism, which ignore the significance of the disruptive social and economic forces not only prevailing but escalating in the Pueblo community, may be critical.

The very fabric of the society and survival of the old ways may well depend on the success of the program in economic development initiated by a coterie of farsighted leaders of the tribe. Even a decision *not* to act forcefully to resolve the pressing social and economic problems is a decision of great significance. The burden of sound decisions lays heavily on the current tribal leaders as they reach out for the new in order to preserve the old.

Thus the bold initiative for economic development. This response to the new challenge to old ways is still a controversial issue to the highly traditional and conservative Pueblo society. The fundamental objective of the development initiative is to provide a means by which the old ways and culture of the tribe will be preserved and strengthened. This has to be done, in a delicate balance, with selective actions and decisions that will promote the objective of maintaining the cultural status quo. At the same time, these decisions must allow change significant enough to permit creation of the jobs and income that will assure a reliable, Pueblo-based future for the youth of Taos Pueblo.

The program does, indeed, call for a delicate balance of forceful, farsighted actions. While the new need is evident, so also, as in past centuries, is the response: accommodation to change and adoption of new ways, but only enough to satisfy necessity and to minimize change. Herein is the resilience—of the past and of the future—of Taos Pueblo.

III. ELEMENTS OF A SOUND DEVELOPMENT PROGRAM

A general misconception about development programs is that they consist of a set of desired projects which grouped together form a "development plan." Rather than seeing the planning process as a tool to assist in development, the planners make the "plan" itself the goal; the projects comprising it invariably are nothing more than a "wish list" seeking funding and other implementation elements that were never realistically in sight in the first place. Thus the "plan" is not a plan at all, but a dust collector on an office shelf, and its components—the "projects"—rarely make it into the implementation stage. Nevertheless, such plans assure an aura of respectability to the development "program"—a respectability that is not deserved for a program that is not a program for responsible action.

The essence of sound planning is to conceive an approach to development that is results-oriented. This involves careful consideration of factors of timing, assessment of exploitable resources, sources of funding and other elements of aid. assessment and development of attitude, conducive to constructive actions, the degree of commitment to the program initiatives, and the level of confidence, both external and internal, in the viability and continuity of the program. The plan becomes a viable entity when assessment of the above factors has determined the essential parameters of a development program. Once the parameters are drawn and the foundation for constructive action is in place, then a formal, realistic plan can be drafted with reasonable promise of successful implementation. In short, planning is a dynamic process of analysis which leads to a formal development plan. The plan evolves over time from the planning/analysis process; if the expected results are to be realized, the "plan" cannot be proclaimed by fiat on the basis of presumed omniscience by the planners at the outset.

The plan that evolves from the analysis and moves into implementation is a dynamic entity and is subject to change with changing conditions, and priorities which need to remain flexible. The essential viability of the plan remains intact, however, if the plan is conceived and implemented in the following framework:

A political environment that is not only stable but strongly supportive of the development initiative.

An environment in which necessary resources of materiel and management are not only available but committed with certainty to the development effort.

An environment where adequate investment and operating capital are made available to the development program.

An awareness, in the case of Taos Pueblo, of the crucial importance of all aspects of tribal life—health, education, religion, attitudes, cultural heritage, etc.

IV. SITUATION TAOS PUEBLO

While there are some formidable difficulties in launching a development initiative at Taos Pueblo, there also are considerable assets available for development; the net balance unquestionably is on the side of promise and optimism.

Among the major problems is a degree of uncertainty that prevails in several important areas. While this uncertainty may not necessarily be destructive or debilitating to the program, its pervasiveness across the board requires delicate balancing and care by the planners and the tribal leaders committed to the development program. Some of the factors in the prospective success of the evolving development program are discussed below. While the problems suggested by these factors may seem to preclude creation of a climate conducive to sound, realistic development planning, that is not necessarily the case. The discussion which follows is intended to highlight those factors which are of critical importance to the development effort, considerations which must be acknowledged and addressed if the proper climate for development is to evolve.

Commitment.—Various resolutions and other expressions of commitment to "development" have come from the Tribal Council, the Offices of the Governor and WarChief, and the tribal community. The community wants the jobs, the increased personal income, and a source of general revenue for important tribal operations. However, in the context of development, these things are not realized in the ways of the past—in government grants and subsidies by fiat. If the economic base of the community is to be strengthened and broadened, a series of constructive decisions and actions needs to be taken. And they need to be taken with the full involvement of the tribal community, for no amount of external

aid will succeed unless the tribal community is integrally involved in conceptualizing and directing the program.

There is a reluctance to take any actions that even suggest change, even though the change required does not impact on the core of the Pueblo culture. It is the resistance to change per se that creates difficulty in initiating a development program—which requires innovative actions to alter an economic and social status quo that the community feels is unacceptable. Part of this problem of mental inertia is rooted in traditional behavior patterns that have been successful in preserving the fundamental tribal culture. Another factor, however, is confusion over the difference between "termination" and "self-determination." The latter alludes to actions designed to enhance tribal self reliance, historical dignity, and increased responsibility for self; the former suggests imminent severance of a dependency relationship with the federal government that has been established as a result of explicit government policy over many generations . . . a relationship which is still very much needed.

Thus the uncertainty of the tribal commitment to development. The tribal response to any particular proposal to strengthen the economy of the Pueblo cannot be known with any degree of certainty in advance of formal decision, regardless of the economic feasibility or non-impact on essential tribal ways. Economic planning is made more difficult by the fact that pre-mature disclosure of potentially viable projects can result in negative decisions based on misinformation or anxiety. While commitment to the tribal policy decisions to launch the development initiative is evident in many ways, the corollary decisions in the action phase are less evident to commitment.

Political Stability and Continuity.—The Pueblo society is highly cohesive in dealing with the outside world. Internally it often fragments into factions that make constructive action in the community interest very difficult. Personal interests too often seem to take irrefutable precedence over tribal interests; an inordinate amount of time and energy is dissipated in debilitating tribal politics.

Political stability and continuity in the commitment to development is critical to the success of the program. Commercial lending institutions, federal sources of aid, foundation assistance, and prospective private sector targets for beneficial joint ventures are keenly aware of the efficiacy of political stability in any development initiative. The annual January turnover of tribal government administrations also creates uncertainty because of the prospect of abrupt changes in policy and commitment to the development effort. Access to promising sources of technical, material, and financial assistance is contingent on an environment in which development capital can be put to productive use.

If the development program is to have any chance of success, the tribe must demonstrate clearly a degree of political stability and continuity that will provide assurances to those outside the Pueblo who are needed in the development effort. This uncertainty regarding continuity is a problem, but there are a number of actions which can be taken by the tribal leaders, now under discussion, to insulate the program against abrupt changes in direction of the development effort. The interests of the tribe cannot continue to be subverted so frequently to the interests of the individual. The development opportunities and the resources available to apply to them are too limited to permit squandering of either.

Vascillation in Commitment by Federal Government.—Two of the key factors in successful development are adequate funds and minimal uncertainty in delivery. The federal government through a series of actions has encouraged greater self-reliance in the Indian world. Taos Pueblo responded, with an exemplary system of improved management; budget discussions oriented to the evolving, new federal relationship; and a development program staffed with expertise not previously available to the Pueblo.

The abrupt termination of federal aid in key areas of business development and other promising "self-help" activities virtually reserves the new federal initiative and policy toward Indian tribes. The offsets to the budget cuts proposed by Washington—enterprise zones, revenue bonds, Indian Finance Institute, "self-generated capital" via taxation—are a non-solution and a very poor cost-effective option to the aborted policy of encouraging greater self-reliance. Prevailing policy at the federal level now seems to be to abort self-determination activities and to induce the tribes to fall back to the traditional posture of virtually total dependence on the federal government—but at a substantially lower level of subsistence.

Thus a substantial degree of uncertainty in the key source of development funding. This makes sound planning on feasibility analysis and project implementation extremely difficult. Moreover, even operating funds for fledgling new enterprises are not available in adequate supply or certainty. Much of the analysis which needs to be done in identifying prospective projects and screening them for economic/political/cultural feasibility will have to be done internally, with the guidance of the development and business expertise now on hand and grant technical assistance which is available on a selective basis. Funds for planning, investment, and operations will have to be sought. While funding sources are indeed tight, funds are available for sound projects that are thoroughly prepared and properly presented.

The vascillation and disruptive changes in federal policy and assistance cause difficult but not insurmountable problems in maintaining a viable development program.

BIA Paternalism.—The BIA is a key element in the well-being of Taos Pueblo. For the most part the response of BIA officials to the development initiative has been cooperative and constructive. Officials have extended themselves to supply technical, material and funding assistance upon request.

On the other hand, there is a sense of paternalism on both sides that works against the bold initiative now being launched by the Pueblo in self-determination. Some tribal members are so accustomed to the paternal hand of the BIA that they come to depend on BIA guidance and other assistance in virtually everything, even where BIA has shown no special capability. Within BIA itself, the paternal attitude manifests itself in numerous ways—in officials who exert authority and initiate actions on the pretext that the tribe is incapable of making enlightened decisions in its own interest. The tribe often has to endure obstructive delays while the bureaucracy decides what is best, at times in areas where the competence or capability of BIA itself is in question.

There is a new generation of well educated, accomplished tribal members who are fully capable of highly responsible decisions and actions. This should not be seen by BIA as a threat to its historial authority or established responsibility; it should be seen, and responded to, as the expected and desired result of BIA guidance and help through the years.

On balance, the BIA relationship and the attitude of BIA officials is a positive, constructive, and critically important force in the prospects for greater self-reliance of Taos Pueblo. However, decreased paternalism in the old mold of "we always know what is best for you" would be a constructive change in the interest of the Pueblo. More reliance on basic tribal responsibility would reduce the uncertainty and the delays so characteristic of BIA operations.

History of Indian Projects.—It is no secret in funding sources that the history of Indian development is not good. Too often projects are launched with inadequate planning or with economically unsound political overtones rather than realistic economic analysis. In many of these cases of Indian project failure, the cause can very likely be traced to the fact that the tribal communities themselves were not integrally involved in the planning process; there was more money available than cooperation and realistic planning. This history works against the development initiative of Taos, which has to overcome the justified skepticism of government, business, and foundations on the real viability of Taos Pueblo proposals, intentions, and capabilities. The advantage that Taos has is its demonstration of careful building of a management system and having on site the expertise in business and economic development that ordinarily is not available in other instances of Indian development "programs." The history of Indian failures in this area is formidable, but it is not an obstacle that should be decisive in the Peublo's development efforts.

Legal Parameters.—There are a great number of legal issues that are critical to the success of the program. The problems as well as the opportunities in the legal area—in protecting the tribe's interests, in taxation possibilities, in inducing promising firms to locate on the reservation to create jobs and income—seem not to be understood clearly even in legal circles. This is an area which creates substantial uncertainty and would be critical to any prospective joint venture with the private sector; the private sector must be assured of protection of its interest as the tribe protects its own. Given the cutbacks in the levels of federal aid, other sources of financial input have become more critical to the needs and prospects for success of the tribal development initiative. The tribe is not only interested in the common "sweat labor" type jobs but in industries which will

constructively make use of the available pool of tribal members with professional backgrounds.

A great deal of analysis and investigation needs to be undertaken before any realistic project conceptualizing or negotiations with the private sector are attempted. This is an area of problems but also an area of great opportunity for the Pueblo.

Labor Supply.—The question of jobs and income is paramount in the minds of all at the Pueblo who are concerned with the economic development program. However, even in this very tight labor situation, where labor demand is so low that unemployment persistently hangs at a level of fifty percent or higher, labor supply is questionable. The reliability of Indian labor is suspect. An image of work patterns characterized by absenteeism, alcoholism, religious holidays, and various social problems prevails in the local non-Indian economy—even though numerous tribal members perform in an exemplary way in the economy as well as the tribal government. Part of this image is rooted maliciously in attitudes of racial prejudice; part is legitimate criticism. Whatever problems may legitimately be attributed to Indian labor are temporary and unquestionably have their origin in the long history of unemployment, deprivation, and unexperience with the work ethic. It is important to note, on balance, that many residents of the Pueblo go on to Stanford and other elite schools, into the business world, and into responsible positions in the professions.

One of the key tasks in the development effort is to determine the composition and marketable skills of the Indian labor force, to educate tribal job seekers on the critical importance to themselves and to other tribal members of responsible performance on the job, and to convince prospective employers that a highly dexterous and reliable supply of labor is at hand . . . actively seeking productive employment. Some workable alternatives have to be found to resolve the conflicts in the non-Indian economy between responsibility for work attendance and obligations for tribal religious functions.

Evolving Potential of Aid Sources.—A successful development effort needs resources to apply to problem areas. Where the federal government is retrenching in its earlier commitment to develop and self-determination, other aid sources are needed to fill gaps. The potential of these aid sources, however, is uncertain although promising. The BIA is still a critical and substantial source of development help. Others evolving as significant factors include the following:

Western Regional Council—a grouping of business firms headquartered in Denver which provides, on a grant basis, high level technical guidance to Indian tribes from their ranks of active executives.

National Executive Service Corps—retired executives of national firms headquartered in New York which provides technical assistance to non-profit organizations or local governments at cost. This is an exceptional source of low-cost aid which extends the usefulness of available grant funds earmarked for technical assistance contracts.

United Nations—the potential of UN help in this area is being explored. Experts skilled in handicraft development and marketing, and other areas, are available for help in the Indian world.

American Indian Service—an organization of the Morman Church, the AIS has been particularly helpful in supplying agricultural machinery and other materiel to Taos Pueblo. If the tribe continues to make productive use of the AIS input, the help will continue.

Foundations and corporations—both are potential sources of development funding and are being approached for any interest in Taos Pueblo.

The uncertainty of these organizations as continued sources of needed technical and capital assistance creates obvious problems in planning a sound development program, even over the short run. Nevertheless, the promise of needed resources provides a good base on which to build.

Depressed National Economy.—The state of the national economy unquestionably reflects on the prospects for success of a bold initiative such as Taos is undertaking. Bankruptcies are at the highest in decades; tourism is impacted by high gasoline prices and lowered expendable incomes; interest rates are at an all-time high and business development money is scarce; national unemployment is high and growing; government expenditures are declining in an economic situation that in the past would have resulted in increased expenditures; and the persistent concurrence of rising unemployment and rising inflation not only continues to confuse government economic planners but depresses business psychology to the point where investment in new vetures—e.g., Taos Pueblo develop-

ment—is scrutinized very carefully and entered into only with considerable trepidation and caution.

Thus the need in development planning to ensure, both internally and externally, that adequate analysis has been undertaken, that the prospects of failure—in the usual fashion of Indian projects—are minimized, and that viable opportunities are not overlooked or neglected.

Tribal Community Attitudes.—The critical importance of the forces now acting in a destructive way on the community very likely is not fully appreciated. A massive education effort is needed by the economic planners and the tribal leaders to generate broad-based support for an activity designed to analyze the problems inhibiting development, to devise solutions, and to accommodate limited change in long established ways of doing things. The stasis of current life—the economy, the society, the quasi-traditional life style—are temporary. The further acculturation of Taos Pueblo society will occur regardless of inaction rooted in resistance—and it will occur at an interesting rate because of the dynamics of change in modern society. The commuinty needs to understand that the basic tribal culture likely will change even more dramatically if nothing is done than it will if carefully considered limited actions are taken to control the forces of change. Community attitude and understanding and support are critical to the success of the development program.

Positive Factors.—The foregoing is a formidable array of problems creating uncertainty and making meaningful planning in development extremely difficult; nevertheless, the promise is equally noteworthy. There is a young, involved, enlightened leadership which is fully aware of the need for action if the tribal culture is to be maintained, if the fate of other tribes in debilitating migration is to be a oided (e.g., on a national level, less than half of Native Americans, according to a 1970 census, were living on tribal reservations). A central management system has been established over a period of 3–4 years to facilitate management of an increasingly complex federal delivery system, to enhance fiscal responsibility, and to lay a good foundation for a program in economic development. Tribal leaders have committed themselves to a program of bold action and have attracted to the reservation hitherto unavailable expertise in business development and overall economic development. Resources to apply to the effort are either on hand or are potentially available, including capital funding.

Moreover, the Taos Pueblo is distinctive among not only the pueblos of New Mexico but among other tribes nationally; indeed, Taos enjoys an international reputation as a site of distinctive Native American culture that has withstood the ravages of time and other assaults on the culture perhaps better than any other Indian society. It is a designated national historical site and is featured in the U.S. Chamber of Commerce promotions of the United States. Taos Pueblo is perhaps the structural symbol of Indian Americana.

Most important, there is an acute awareness in the tribal leadership that the long range future of the Taos Indian community lies in finding new ways to protect and strengthen the old ways. In the short range, this means finding ways to provide a reliable, Pueblo-based future for the youth of Taos Pueblo—i.e., jobs and income that only a successful development program can generate. Knowing the problem is a good part of the solution. This enables the leadership to mobilize resources and develop progressive attitudes for limited though necessary change in a conservative, highly traditional society. The community's "have-not" present is not an inevitable picture of the immediate or long range future. The strength of the Pueblo through many centuries has been its ability to make adjustments; this flexibility has enabled the tribe to maintain essential tribal dignity and to realize a sense of a distinctive culture of both native and modern America.

The prospects for a solid development program, if carefully structured and tempered with patience and cooperative action within the community, are very good.

V. THE DEVELOPMENT PROGRAM TAKES FORM

First six months

While a good plan is built on a foundation of sound analysis and policy, a development program is not a static thing. Even while a general plan for development is being conceptualized in the context of the resource base, policy parameters, development potential, and other factors, certain actions need to be taken. A promising source of technical or capital assistance needs to be pursued on a timely basis. Discussions for a prospective joint venture with the private sector need to be undertaken when the interested firm(s) are ready to explore areas of

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possible mutual interest. Preliminary analyses and decisions on good or bad components of a development program lay the foundation on which the ultimate development plan is to be built.

Thus, a great deal of analysis and work in the development process is undertaken even while the general direction of the program is evolving. In attachment A is a report from the Director of Economic Development to the Office of the Governor for the initial 6 month period June–November 1981.

The future

In the interim between the present and the time that the formal development plan is completed, we will be addressing the myriad economic/social/political/governmental/legal factors that will enable us to identify and refine the portfolio of project possibilities comprising a practicable development program. We will then be in a position to draft a sound development plan which takes into account the physical and financfal resources available to the Pueblo and which addresses the desires and the limitations imposed on those prospective activities, for whatever reason(s), by the tribal leadership and the community at large.

In the forthcoming analysis we will be assessing the various ways in which the economic foundation of the Pueblo might be strengthened. Some of the issues to be examined are whether it is best to concentrate on projects to create income for the tribal government or to create employment in the tribal community. There are problems as well as advantages in either approach. Some projects by nature are very labor-intensive and do not provide a great profit return; others are designed essentially to be highly profit-oriented. One of the problems in the latter approach is to ensure that any profits that are generated are not siphoned off for immediate consumption. In the early stages of the evolving program any profits must be available to drive the development program. In practice we will be examining any possibilities that seem feasible in the context of resources and other factors addressed above.

Another issue to be addressed is how best to manage whatever tribal or privately-owned enterprises that do evolve. We will need to see to the creation of a "Business Advisory Committee" to increase tribal involvement in the deliberations on the various projects. In time, depending on the growth and scope of the development program, it may be advisable to create an overall tribal corporation.

When the conditions for development are present—i.e., when the confidence and capability both internally and externally reach the proper level—the development process "takes off" and is carried by its own momentum. Prior to that point, the technical and financial and other tribal resources have to be mobilized and applied. In essence, we are talking about building and establishing a credibility which facilitates the mobilization of needed resources—a mobilization that is contingent on crystallizing a clear and firm commitment internally as well as a constructive level of confidence in external sources of concessional aid or commercial funding. The process is a gradual one, but it has been shown to be highly productive in numerous other underdeveloped economies around the world when patience is combined with sound, careful planning.

There are numerous issues that will have to be examined in the months ahead, some of which are enunciated in Section IV of this paper. Resolution of these issues will help determine the ultimate project portfolio. At this writing, the following prospects are under review:

Agriculture.—One of the prime developmental assets of the reservation is the land—and the agricultural heritage of the tribe. A hundred years ago a tribal leader could proudly boast that at Taos "'we sow more than all the other (pueblos) put together . . . wheat is our money; with it we buy everything—clothing, blankets, horses, coffee, sugar, apricots—all that we eat."

However, over the past 2–3 decades in particular the practice of working the land has declined dramatically. Less land is in production and less people are involved in farming. The irrigation system is in disrepair. The technical know-how of modern farming in many instances has been lost due to neglect through time and to the age or demise of knowledgeable tribal members. This situation, despite the substantial potential of reservation agriculture, deters many from re-entering the agricultural sector as a means of generating even supplemental income.

Our development approach in the agriculture sector is to provide subsidized help and encouragement to individual tribal members in the hope of inducing greater involvement in farming, which in turn should serve as demonstration

examples for others. The basic operating guidelines of the evolving program are as follows:

The immediate assistance target for increased production is the individual farmer, on a small scale—as opposed to large scale efforts on large tracts at the tribal level.

The immediate objective is increased production for private consumption, or consumption on the reservation—as opposed to the commercial market off reservation.

A second objective is to create supplemental income for part-time effort (i.e., income earned or disposable income saved)—as opposed to inducing full time dependence on farming.

An immediate and critically important concern governing all aspects of the agricultural initiative is the issue of tribal rights to water; in order to protect and strengthen these rights the irrigation ditches have to be prepared and the available water must be delivered and used to the maximum extent possible in the shortest time frame.

The ultimate potential of the evolving agricultural development program is unknown at this time. Definition of the potential, as well as realization of it, depends on critical unknowns such as: individual and tribal response to program efforts to change attitudes and induce a sizeable return by tribal members to the dignity of farming; the degree of support and active encouragement by tribal leaders; availability of external resources to subsidize and "seed" the new initiative; and the availability and management of critical water resources. The forthcoming planting season (spring 1982) could prove to be critical in defining the ultimate parameters of an agricultural base for the Pueblo. By harvest time we should have a better perspective on the realizable potential and should be in good position to develop a practicable development plan for the agriculture sector.

Tourism.—Tourism is potentially the best prospect for generating increased tribal and individual income in the short run. Unlike many reservations which attempt to capitalize on tourism through the intense tourist interest in Indian culture, Taos does not have to generate the tourist raffic; it is year-round—abundant in summer and more pronounced in the winter months than most Indian reservations experience. What is needed are creative efforts to induce greater expenditure of tourist dollars for the benefits of Taos Pueblo. Although the Pueblo is universally recognized as the stellar attraction in the area, eclipsing artsy Taos itself and even the ski valley, the Pueblo realizes only a dollar or two of the estimated $100 expended daily by the average tourist.

Our basic development approach here is to provide services and products that will increase expenditures of tourist dollars to the direct benefit of the Pueblo. Among the initatives being examined and/or developed are the following:

Tourist Information Center—designed to better control the flow of tourist traffic and to better inform the transient visitors on the richness and longevity of the distinctive, thousand year culture of Taos Pueblo. In addition to information services in the form of guided tours, brochures, and video slide tape shows of current scenes and festivities, a variety of products for sale are being developed. These new services and new products will induce increased tourist expenditures at the Pueblo.

"Indian Detours"—Over 50 years ago the Santa Fe Railroad and a tour car company under the Fred Harvey Organization conceived and implemented a tourist promotion scheme which induced cross-country and regional tourists to detour from established high visibility tourist meccas and to linger awhile in "Indian Country" in the Southwest for a truly different vacation experience. We hope to revive and to expand on this concept, which can probably be capitalized on better by Taos Pueblo itself than by any other Pueblo or any non-Indian entity.

The expansion element extends to developing and tapping into the potential of the foreign tourist market. In Japan and Germany and other parts of Europe there is an incredible reservoir of interest in Indian culture. Foreign tourism in the U.S. is on the increase. Taos Pueblo is a designated national historical site featured in the U.S. Chamber of Commerce promotions of the country. It is perhaps one of the most photographed natural tourist sites in the nation and very likely the consensus structural symbol of Indian Americana. The size potential of these markets, and the keen interest and attitudes and appreciation of current foreign visitors to the Pueblo, suggest that the "Indian detours" concept could be revived into a remunerative operation.

The key to benefiting the Pueblo in this resurrection of an old idea is not simply in getting more visitors to the Pueblo; it is in providing the ground services of passengers deplaning in Albuquerque and managing truly distinctive tour services through Albuquerque, Santa Fe, and other sites north to Taos Pueblo. Indian youth could replace the highly trained and highly regarded "Harvey girls" serving as tour guides. Indian involvement would be maximized in other areas, as appropriate and feasible, to provide an Indian tour of Indian America and the surrounding lands that once were the Indian world . . . before the Old World knew it was there.

Much analysis on economic feasibility, financing, logistics, personnel, and other resources needs to be undertaken. However, there is enough promise in the endeavor to justify the forthcoming analysis and possibly reach out for the increased tribal income and employment that appears possible.

Hotel—In both summer and winter there is a heavy influx of tourists in the Taos area, invariably saturating the market for decent accommodations. Unlike other endeavors in Indian motels, which have had to generate the tourist traffic to fill rooms, the demand is already established; moreover, it is not demonstrably seasonal but well distributed over the year. Taos Pueblo is in an ideal position to capitalize on this shortage.

We are examining the prospects of a distinctive "Indian" hotel. The architectural concept would combine first class accommodations to meet tourist needs for comfort and services while providing a design and motif intended to take the tourist back in time to the Pueblo and Indian life style pre-dating the U.S. itself. The concept is one of a period piece, a "live-in museum" on the lines of the hotel "yurts" (native tents) so popular with tourists in Afghanistan, the "tree tops" hotel in India, and other innovative hotel concepts around the world.[1] A distinctive hotel of this kind could provide a formidable attraction for conventions, general tourists, and other business prospects. It could also provide a basis for immediate employment or longer range planning for the educated youth of the Pueblo—in management, operations, etc.

Youth Camp.—This is an idea currently under review that could generate some tribal income in the short run of a few years. Its attractiveness lies in the following factors:

There is good income capitalizing on the middle class (and upper) practice of "sending the kids off to camp"; we need to assess the market on which we would draw and determine prices which would be competitive.

There is a special attractiveness in camps which emphasize the outdoors and "roughing it." In this case there is the promise of exposure to an exotic old culture which could even earn academic credit for the participants.

There would be virtually no fixed costs beyond construction perhaps of a "lean-to" camp out structure at some remote place on the reservation far removed from the visibility and consciousness of the Pueblo proper. The area of operations for the camping program would be the Carson National Forest rather than the reservation itself.

There would be low operating costs per camper unit: food would be camper fare; horses could be rented as needed from the Indian Horse Ranch (or other tribal members); staff primarily would be tribal members "on call" on an ad hoc basis.

This is a project that individual tribal members should be comfortable with and do well with. The idea is to capitalize, with dignity, on the intense interest in Indian culture and to share that part of Indian lore which can comfortably be shared by the tribe. We propose to create tribal employment by drawing on selective tribal members as consultants and ad hoc staff to educate and share with the campers their particular areas of individual expertise. This will not only enrich the campers involved but will enhance the external image as well as the internal self-esteem of Indian youth.

The potential of this prospective project is considerable. However, a great deal of analysis and discussion still needs to be undertaken, not only on the economic and public relations aspects but on the sensitivities and understanding of the tribal community as well. The community and the tribal leaders need to understand clearly what is intended, what is not intended, and the manner in which a project of this nature could and would be implemented in accord with tribal sensitivities.

Arts and Crafts.—There is substantial room for market growth in the area of arts and crafts. There is a good possibility of obtaining the assistance of a United Nations expert to assist interested tribal members in this area.

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[1] Another internationally known example is the Grand Hotel in Taipei, Republic of China, which is more like a Chinese palace than a hotel.

Sound and Light.—For the longer run there is the prospect of a distinctive "Sound and Light" presentation. This is a major technical production which compresses, through the medium of movie technology and stereophonic sound, an extended period of history into a half hour or so of "you were there" experience. It is a highly remunerative tourist attraction at distinctive tourist sites such as the pyramids in Egypt and George Washington's home at Mt. Vernon, Virginia. Tourists are willing to travel long distances and are comfortable at paying a reasonable few for such a walk into history. Taos Pueblo has a longevity and richness and distinctiveness which especially lends itself to a presentation such as this, a presentation which would further enhance the dignity of the culture and the international image of the Pueblo.

Community Store.—While the Town of Taos enjoys the economic benefits of the Pueblo's attraction, the Pueblo itself does not share in the proceeds commensurate with the role it plays in attracting tourists. Moreover, much of expendible income of the tribal community is also drained off by the town because there virtually is no commerce or retail facilities on the reservation. There is a good possibility of re-establishing the defunct community store. The prospect is one of a convenience store under trained management, targeted essentially to the basic needs of the Pueblo, with moderate deference to the special needs of the tourist trade. The community store would be one of several outlets for the produce of the evolving farm program. The legal, marketing, funding, and other factors are under review.

Private Sector Ventures.—We have under consideration several prospective joint ventures with the private sector. Foremost among them is a promising prospect of a clean production facility through SKIA Corporation, a California firm involved in production of high technology medical instruments. The interests and capabilities of the Pueblo and the interests and concepts of SKIA's Dr. Maurice Tripp blend exceptionally well into a prospect of potentially substantial benefit to both parties. Realization of this particular venture promises some 300–500 jobs and income for the Pueblo and Taos and a truly innovative concept and facility for research, production, and marketing for SKIA. In addition, we are actively considering some prospects with Japanese firms interested in U.S. production sites. The hotel discussed above also would be a joint venture with a major hotel chain. Several are under consideration.

La Tuatah.—Taos Pueblo has a valuable site and building in the heart of town. There are several possibilities for productive use of this facility. Among them is a temporary site for the SKIA operation noted above. Other prospects include production or outlet facilities of various kinds currently under consideration, to be run either solely by the tribe or in joint ventures with the private sector. These prospects, until the analyses get further along, are not for public consumption.

Small Business Development.—Through the development program of the Pueblo we intend to mobilize whatever technical, management, financial and other resources that are available to encourage and assist prospective small business enterprise by tribal members.

Community Relations.—A very important aspect of the development initiative is the interfacing of the tribal community with the civil, banking, and business communities of the area. There is a clear symbiotic relationship between the town of Taos and the Pueblo which has not been developed to the maximum interests of either. If the tribal leaders are to identify and protect Pueblo interests, it is vitally important for the Pueblo to be fully informed—with accurate information rather than second-hand, distorted bias—on developments in the surrounding community. This means increasing and maintaining frequent contact and dialogue with the economic and political forces in the area such as the Taos Ski Valley, the Chamber of Commerce, the Town of Taos, etc. In this way the Tribal community will be in a better position to understand and protect its own interests and to capitalize on further development opportunities.

Hydro-power.—One of the prime prospects for income generation contemplated a year ago was that of developing a source of hydro-electric power at a site on the reservation. We envisioned a project that preliminary analysis indicated could generate power sufficient to supply the needs of the entire reservation, with a surplus. With a pre-feasibility study provided through the grant assistance of the Western Regional Council and a Denver engineering firm (Tudor Engineering), we examined this project possibility. The data revealed that the stream head and flow were inadequate for production of power at a price competitive with the local grid. The prospect should be re-examined in 3–5 years in the context of new cost data.

Minerals/Energy/Timber.—In any conceptualizing of development initiatives in this day of national shortages in natural resources, we obviously gravitate in our thinking toward the prospects for development of mineral and energy resources. However, this is not at this time under active consideration for Taos Pueblo. The tribal leaders are fully aware of the impact and trauma such development has brought to other reservations and there is no interest in duplicating those tragedies in Taos by paying too high a price for the benefits of success.

The basic thrust of the development initiative at Taos Pueblo is not only to provide jobs and income and a better life for the community. It is to preserve and strengthen the essentials of the tribal culture, through the development effort. The development program is a practical and necessary means to a desirable and carefully contemplated end. It is not an end in itself. The consensus in the community is that the Pueblo is not about to leap into the far future through the magic of economic development, regardless of the promised economic benefits. The idea is to step gently into the future, with one foot firmly anchored in the tribal heritage of the past.

VI. LONG RANGE PLAN

The "long" range plan will be drafted when the analyses noted above in Sections III and IV are complete. These analyses will enable us to define the parameters for implementation of a realistic development plan in the context of pertinent factors of community desires and sensitivities, funding availability, economic and technical feasibility, material and manpower resources, time and other considerations.

[From the Albuquerque Journal, July 15, 1981]

PUEBLO EXPLORING WAYS TO GET JOBS

(By Gayle Weinberg)

TAOS.—It's 10 a.m., and already a swarm of activity engulfs the director of economic development at Taos Pueblo.

The telephone rings repeatedly. Tribal employees enter the director's office, consult on business matters, and hurriedly leave. There are forms to sign, bills to send, meetings to schedule.

The director, William Burke, hasn't had much rest since arriving at Taos a month ago to take the economic development post. Neither have the tribal officials and council members who worked for a year before his coming to set in motion a far-reaching plan of economic recovery.

The idea, according to those officials, is to reduce the pueblo's dependence on federal aid by creating employment opportunities at the pueblo for tribal members. Another key element of the plan is to reintroduce farming, once the livelihood of many Taos Pueblo natives, to those who long ago abandoned or never learned the practice.

Tribal officials are backing the project not only because they feel dependence on federal aid is undesirable, but also because they believe the days of large-scale government funding are numbered.

"The economy of the community here is based for the most part on the Bureau of Indian Affairs and the Indian Health Service," Taos Pueblo native Nelson Cordova, the assistant economic development director and one of the project's strongest advocates, said, "When those programs go, everything goes."

Despite government aid, the pueblo's unemployment rate hovers between 20 percent and 50 percent annually, Cordova said. A recent cut of 32 U.S. Comprehensive Employment and Training Act jobs put further financial strain on the tribe's 2,000 members.

Last fall Taos requested help from the Tribal Managers Corps, a cadre of management and finance experts loaned out under the sponsorship of the President's Management Improvement Council.

The tribe's application was approved, and Burke, who worked for several years as an economic development specialist in several Southeast Asian countries, was dispatched to Taos last month.

The new director praised the tremendous enthusiasm tribal officials have shown for the project and the keen perception they have of the pueblo's problems, but he cautioned that prosperity for the pueblo is a long way off.

With his guidance, the tribe has begun studies to pinpoint the kinds of enterprises most likely to turn a profit.

The possibilities so far include a grocery store, a laundromat, a gas station, a motel and a hydroelectric power plant.

Key to the success of most of the ventures is the degree to which the tribe will be able to capitalize on its own tourist draw for business, Burke said.

"Taos isn't getting as much as it should from its history and presence here," he said. The tribe's main attraction, the "oldest apartment house in the United States," brings in thousands of people each year who spend nearly all their vacation money outside the pueblo, he said.

Attracting light industry to the pueblo is another option that will be explored. Several initial proposals have drawn the interest of at least two manufacturing firms though formal negotiations are still a ways off, Burke said.

With some additional money from the tribe, Burke and Cordova are laboring to get the venture back on its feet, by streamlining production and introducing sound management and bookkeeping procedures.

"Nelson and I are out on the adobe yard, contributing our labor," Burke said. "The main thing is we're showing others that hard work isn't degrading."

"If we can turn Native Products around, bring it out of debt, this will convince people on and off the reservation we have the capability to succeed," the director said.

Funding for future ventures will be available through the public or private sector once lenders become convinced Taos is pursuing a sound course of development, he said confidently.

Some private-sector professionals have already volunteered to help assess proposed projects, he said. Pledging their support are the International Executive Service Corps, a retired businessman's group, and the Western Regional Council, a Denver-based association of firms that lend out expertise. The tribe has already received some guidance from a Denver accounting firm, Burke said.

Though it may take months or years of working at the current stepped-up pace, the director thinks several enterprises will be launched at Taos during the next two years.

"There's no quick solution and no magic wand to wave," he said. "We're working like hell, to be perfectly candid."

Achieving the right development part will be important. "The tribe wants to balance old and new, and that's very difficult," he said. Officials stressed that they want to prevent a helter-skelter surge of commercialism from taking root.

Before Burke's arrival, the tribe kicked off the agricultural portion of the venture with the purchase last spring of a tractor and plow, both of which were made available to tribal members for a small rental fee. About 30 Taos natives planted vegetable crops on plots of one to four acres each, Cordova said.

Seeds for the first planting were supplied free by the Meals for Millions/Freedom From Hunger Foundation of Tucson. Some farm implements were donated by the Mormon Church.

Officials are hoping a good first harvest will persuade more people to try farming next year. "For the long range, there's the possibility of a large-scale farm as a tribal business," Cordova said. "Our study will tell us which crops are the most economically feasible."

As the tribe's new farmers tend to their crops, the economic development specialists are working to rescue the pueblo's sole economic venture, Native Products, from financial collapse.

The troubled company got its start a year ago with an initial $5,000 investment by the tribe, but its production of adobes, vigas, latillas and fence posts was handicapped by mismanagement and a lack of working capital, Burke said. Production was halted at one point.

Ready for 'New Federalism,' Phase II? Turning Tax Sources Back to the States

President Reagan wants to make the states responsible for both running programs and paying for them, but the technical and political obstacles are huge.

BY ROCHELLE L. STANFIELD

He hasn't mounted the steps of the Lincoln Memorial to describe it to hundreds of thousands of people, but President Reagan has a dream that he relates to state and local officials whenever he meets with them.

It is to shrink the size of the federal government by shifting power from Washington to states and localities. He has already begun to propose the transfer of responsibility for many domestic programs to the states, chiefly by consolidating narrow federal programs into broader block grants with fewer strings attached. Congress enacted some of his proposals in this year's budget-cutting bill.

Reagan's next step may be even more politically explosive: to shift to the states the tax resources to pay for the programs cut loose by Washington. Then the officials who spend the tax revenue would be accountable to those who pay the taxes.

"The ultimate objective ... is to use block grants as a bridge leading to the day when you will have not only the responsibility for programs that properly belong at the state level, but you'll have the tax sources now usurped by Washington returned to you —ending that round trip of the people's money to Washington and back minus a carrying charge," he told the National Conference of State Legislatures on July 30.

Although he mentions it frequently, his dream remains a vague outline. It has been tagged with the phrase, "tax turnbacks," but so far he has not explained what taxes he has in mind or how they might be turned back.

There are several possibilities under review:

- Specific federal excise taxes —on tobacco, alcohol, gasoline, for example— could be turned over in whole or part to the states.
- Federal taxpayers could be given dollar-for-dollar credits against their federal income tax payments for some state taxes, thus reducing their federal payments while boosting their state taxes.
- Congress could reduce the federal income tax and "allow" the states to impose taxes of their own in the same amounts —or it could say it has already done this in the recent tax reduction law.
- General revenue sharing could be made the mechanism by which the federal government collects the taxes and then turns the revenues over to the states in the form of grants.

The biggest and fastest-growing revenue source, the individual income tax, probably can't be touched so soon after the major tax cut that Reagan signed into law on Aug. 13, especially with huge federal deficits looming. The other possibilities —such as the federal taxes on tobacco, alcohol and gasoline— produce only a relative trickle of revenue and are hardly the stuff of presidential dreams.

Furthermore, there are tremendous disparities of taxable resources from state to state and region to region. If you compensate for the disparities, you subvert the policy. If you don't, you probably won't get congressional approval.

"The idea sounds so good," said John Simpson, director of state planning in Vermont. "But when you start grinding on it, it's hard to see how you'd do it and not leave some states in a very big mess."

THE DREAM

To help Reagan achieve his dream, the Cabinet and the White House staff are studying ways to give substance to his goal of reversing 50 years of centralization of control in Washington.

"The President makes these statements to state and local officials and therefore captures the attention of everyone else," Rich Williamson, assistant to the President for intergovernmental affairs, said in a July interview. "That puts the obligation on all of us to get involved."

Williamson did not sound so interested in mid-June, when he was asked about Reagan's idea at a meeting of the U.S. Conference of Mayors. "There is no firm decision made," he said, "not even option papers considered."

The concept is going through the normal policy development process. It has been assigned to an interagency "working group on transfer of tax resources," which is to develop options for the Cabinet council on economic affairs.

"I consider this an extremely important working group," said its head, Edwin J. Gray, director of the White House Office of Policy Development. "It gets at one of the fundamental tenets of President Reagan's philosophy which he talked about since he was governor of California —returning more authority and capacity to states. Time after time after time during the campaign, he discussed the need to turn back tax resources to the states."

Williamson and Gray might have caught the turnback bug, but not everyone associated with the project is very enthusiastic, including several powerful forces in the Administration.

Dave Stockman, director of the Office of Management and Budget (OMB), is understood to be very cool toward the idea. His representative on the working group, Lawrence A. Kudlow, assistant OMB director for economic policy, likewise doesn't sound excited about it. He describes the effort as "examining a variety of things, probably putting the concept in historical context."

Treasury Secretary Donald T. Regan, to whom the working group will report, appears to be the least enthusiastic of all. In an interview with *The Washington*

Post on Aug. 13, he said he doubted that the Administration would propose tax turnbacks to Congress before 1985. That wouldn't fit with some White House staff schedules, which call for something in the budget as early as next January.

Although there is no neat blueprint from previous Administrations for turning the idea into reality, the notion isn't entirely new. President Eisenhower had a similar dream in 1957, and it resulted in a proposal to return to states the total responsibility for paying for vocational education and municipal waste treatment. As a means of financing those programs, part of the 10 per cent federal telephone tax would have effectively been turned back to the states. In states that imposed a tax of up to 4 per cent, the local telephone company would have sent that share of the total tax to the states; telephone users would have paid no additional taxes.

Some states would have been forced to spend more than they would have received under that arrangement, and when they complained, the proposal was changed to guarantee each state at least 140 per cent of its vocational education and municipal waste treatment aid at the time of adoption. But Congress never seriously considered the proposal.

"That sweetener really shows you how times have changed," said John Shannon, assistant director of the Advisory Commission on Intergovernmental Relations (ACIR).

In the current atmosphere, states can expect less in tax resources than the costs of the programs they take over. But a credit against federal taxes, such as the one proposed by Eisenhower, could still be a mechanism for making the transfer. The federal government already gives tax credits for state unemployment and estate tax payments.

If Reagan decides a tax credit retains too much federal involvement, he could propose simply relinquishing a federal tax and permitting the states to adopt a similar tax. That worked with the 1965 repeal of the real estate transfer tax but not with the earlier elimination of an electrical energy tax (1951) or the reduction of a tax on amusement tickets (during the 1960s). The states did not step in.

Or, more simply, the states could be encouraged to fill the revenue gap left by the recent federal tax cut. "The President could simply declare victory and tell the states and localities he's made tax room if they have the guts to grab the revenues out of the jaws of the taxpayers," said Shannon.

Alternatively, Reagan could decide to use the general revenue sharing program, perhaps pegging state and local allocations to a percentage of federal income tax collections. That would amount to a spending program rather than a tax turnback, but it would avoid some of the problems associated with other schemes.

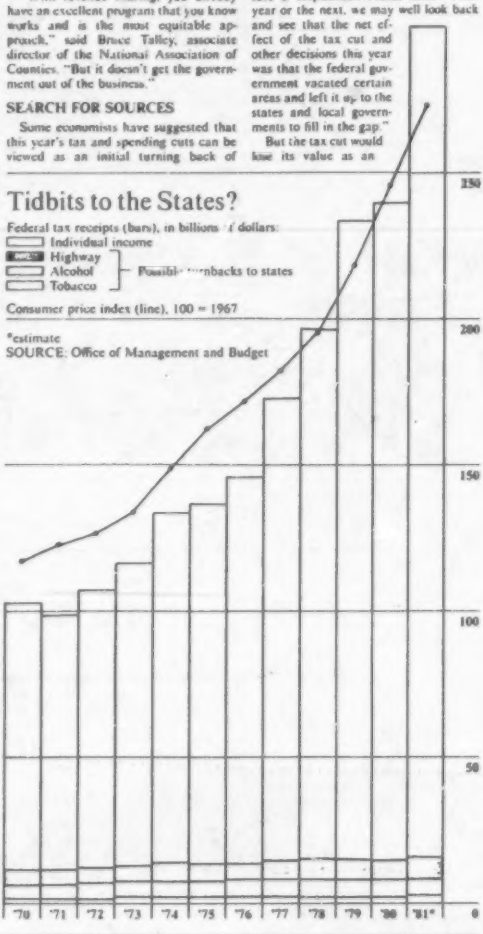
"With revenue sharing, you already have an excellent program that you know works and is the most equitable approach," said Bruce Talley, associate director of the National Association of Counties. "But it doesn't get the government out of the business."

SEARCH FOR SOURCES

Some economists have suggested that this year's tax and spending cuts can be viewed as an initial turning back of responsibilities and resources to the states and localities.

"We may well be on our way to accomplishing the President's dream," said a Republican House aide. "Next year or the next, we may well look back and see that the net effect of the tax cut and other decisions this year was that the federal government vacated certain areas and left it up to the states and local governments to fill in the gap."

But the tax cut would lose its value as an



economic stimulus if it were simply replaced with state taxes, said Francis Viscount, a staff member of the National League of Cities.

"What the states have to be leery of is that after the [Administration and Congress] cut the federal tax burden, they say to the states, 'There's a tax source. Go after it if you have the political will,'" added Harley T. Duncan, deputy budget director in Kansas. "That would be the worst of all worlds for the states."

Georgia Gov. George D. Busbee spoke bitterly of this prospect in his farewell speech as chairman of the National Governors' Association on Aug. 11. "Washington officials should not promise returned revenue sources for states in exchange for our taking over a government function—and then turn around and tell the people that Washington is putting money back in their pockets [through tax cuts]. If they do that, then we should tell them they can take back their revenue source, along with the responsibility."

If the federal tax bite keeps declining, "there could come a point where states could move in and fill the gap," said Vermont's Simpson. "But in the first round of tax cutting, I wouldn't guess any state could do anything."

Williamson and other White House staff members say, however, that the President has more on his mind than the recent tax cut when he talks about turning back resources. They envision a new policy—if only they can identify discrete revenue sources that can be turned back.

The individual income tax is not only by far the largest federal revenue source—it accounted for nearly 47 per cent of 1981 revenues—but it is the only potential source of turnbacks that has grown with the economy and inflation.

States and localities have had an eye on this source for years. The original general revenue sharing proposals in the 1960s, for example, would have returned a fixed percentage of the individual income tax. And rival proposals at that time would have provided a federal income tax credit—instead of only a deduction for those who itemize—for state income tax payments. A new version of that idea surfaced at the National Governors' Association meeting last year when then Gov. Otis Bowen of Indiana suggested a federal income tax credit for both state income and sales tax payments.

But the income tax has probably been preempted politically as a source of state and local revenue by the recent federal tax cuts. So has the federal estate tax, another possible source to turn back, which even now brings in just $6.9 billion, or 1.1 per cent of total federal revenues.

President Reagan tells the National Conference of State Legislatures of his dream to turn back tax resources "now usurped by Washington" to the states.

Turning back the estate tax would have been easy because the federal government has given state taxpayers a credit against federal estate tax payments since 1926. In fact, proponents of tax credits cite the estate tax as evidence of how well that approach works in transferring tax resources from the federal to state levels. Twelve states levy a tax equal to the maximum federal tax credit, while the rest (except Nevada, which has no estate tax) impose a greater tax.

Excluding payroll taxes, tariffs on imports and other levies not appropriate for transfer to the states, that leaves three possible taxes for transfer to the states: on alcohol, tobacco and motor fuel. All of them are small and relatively stable. *(See graph, p. 1493.)*

The alcoholic beverage tax raised $4.6 billion in 1970 and $5.6 billion in 1981, a 21 per cent increase, and tobacco tax revenues rose by 28 per cent, from $2.1 billion to $2.7 billion, over the same period. That compares with an increase of 133 per cent in the consumer price index.

The states already collect more from their own tobacco taxes—$3.75 billion in 1980—than the federal government does, and they collect about half as much in alcoholic beverage taxes, or $2.5 billion that year.

"These revenue sources are not that attractive," said Harold A. Hovey, a Washington economic consultant. "If you turned back the tobacco tax, it might pay for a preventive health program, not anything big like medicaid. Compared with the rest of the agenda of federalism, that's not very exciting."

Although it has many of the same drawbacks as the alcohol and tobacco taxes, the federal gasoline tax is probably the best candidate for an initial turnback effort. For one thing, it would be easy to match up the spending program with the revenue source. States could assume total or partial responsibility for highways along with some or all of the 4-cents-a-gallon federal tax.

Last December, Arizona Gov. Bruce E. Babbitt called on the federal government to eliminate its gasoline tax and "invite (but not order) states to make up the difference." At the recent Governors' Association meeting in Atlantic City, however, he called the tax turnback concept "a game of mirrors."

The staff of ACIR, a permanent, bipartisan, 26-member study commission, has worked out another illustration of a turnback of the gasoline tax, which brought in $3.7 billion in 1970 and $4.6 billion in 1980. If the federal government returned 3 cents of the motor fuel tax to states along with responsibility for all but interstate highways, states as a group would have lost only about 10 per cent more in federal aid in 1979, the latest year for which figures are available, than they would have gained in tax revenue—though some would have been hurt much more than others by the proposal. But since 1979, the total cost of the program has gone up faster than the revenues from the tax.

"Local program costs have increased very rapidly over the last 5 to 10 years, much faster than inflation," said Viscount of the National League of Cities. "Now the programs are being reduced, by 20 per cent at least this year, probably 40 per cent by 1984. If they try to match up the program and the revenue sources, the base line becomes very important. We're very concerned that they establish the base line now, rather than in 1984."

MISMATCH

Even greater than the mismatch between the costs of federal aid programs

Finances at the State Level: Great Disparities Abound

Any proposal to turn back federal revenue sources to the states would have to overcome a formidable political obstacle: the great disparities among the states in revenue-raising capacity and federal aid receipts.

The accompanying table illustrates some of the disparities. All figures are for fiscal 1979, the last year for which data are available.

The first column suggests the inequalities in the flow of federal tax revenue from the states to Washington and the flow of federal aid back to the states. The figures reflect the amount of money received by each state in federal aid for each dollar in tax revenue sent to Washington. The federal deficit was distributed on a per capita basis among the states as an added tax, so that the average state received a dollar in spending for every dollar in tax revenue. *(See NJ, 2/7/81, p. 234.)*

The next four columns illustrate the disparities among the states in capacity to raise money with four kinds of taxes that could be turned back to them in whole or in part. The higher the index, the greater the state's capacity to raise revenue.

Specifically, the index measures the amount of money that each state would raise per capita with a tax equal to the national tax in effect in 1979. An index of 66, for example, means that a state would raise 66 cents per capita for every $1 per capita raised nationally. An index of 246 means that a state would raise $2.46 per capita for every $1 per capita raised nationally.

The last column demonstrates what would have happened if the federal government had turned back 3 cents of the 4-cent-a-gallon gasoline tax and given the states responsibility for financing all federally aided highway programs except the interstate system. As a whole, the states would have paid $1.92 per capita more for highway programs than they would have raised from the new tax. But the range among the states would have been enormous. Texas would have raised $5.62 per capita more than it would have spent, while Alaska's receipts would have fallen $214.64 short of its spending on a per capita basis.

National Journal compiled the numbers in the first column; the data for the remaining columns come from the Advisory Commission on Intergovernmental Relations.

	Flow of federal funds	Capacity to raise tax revenue: Income	Alcohol	Cigarette	Estate	Hypothetical highway turnback
New England						
Maine	$1.32	66	101	105	75	−$8.62
New Hampshire	0.92	98	246	191	92	−12.15
Vermont	1.17	72	141	121	80	−31.17
Massachusetts	1.13	98	120	90	89	−1.27
Rhode Island	1.04	87	107	112	97	−9.97
Connecticut	1.02	134	116	89	154	+0.07
Mid-Atlantic						
New York	0.96	98	112	95	120	−5.46
New Jersey	0.71	118	105	94	92	+1.34
Pennsylvania	0.92	96	71	93	82	−2.74
Great Lakes						
Ohio	0.71	103	69	100	84	+1.19
Indiana	0.70	100	74	113	105	+0.95
Illinois	0.73	121	110	103	142	−2.80
Michigan	0.66	110	96	107	87	+1.10
Wisconsin	0.74	91	117	88	74	−3.70
Great Plains						
Minnesota	0.85	94	109	89	70	−6.80
Iowa	0.76	95	67	94	153	−7.51
Missouri	1.25	92	74	107	101	−0.69
Kansas	0.96	100	68	95	137	−13.01
Nebraska	1.05	90	83	88	168	−14.39
South Dakota	1.40	69	97	89	93	−26.43
North Dakota	1.31	79	104	92	105	−33.24
South Atlantic						
Delaware	0.74	110	125	115	83	−15.15
Maryland	1.18	115	131	100	85	−0.55
D.C.	8.56	130	292	101	91	−96.24
Virginia	1.41	98	88	115	77	−1.82
West Virginia	1.11	79	72	92	49	−6.81
North Carolina	0.97	74	82	153	56	+0.44
South Carolina	1.16	68	108	103	54	−0.66
Georgia	1.11	80	108	99	65	+0.35
Florida	1.11	101	140	100	134	+2.91
South Central						
Kentucky	1.12	75	71	163	62	−6.23
Tennessee	1.39	79	68	96	132	−1.36
Alabama	1.23	68	77	92	55	−0.71
Mississippi	1.58	57	80	93	35	−1.27
Louisiana	1.05	88	97	105	65	−7.03
Arkansas	1.24	63	53	97	47	−6.85
Oklahoma	1.09	87	79	107	102	+0.67
Texas	0.93	109	80	94	106	+5.62
Mountain						
Montana	1.19	80	95	91	93	−35.25
Idaho	1.20	72	71	87	75	−21.47
Wyoming	0.90	125	119	121	90	−36.85
Colorado	1.06	107	121	96	77	−2.23
Utah	1.28	72	51	57	37	−5.56
Nevada	0.93	139	307	131	316	−19.47
Arizona	1.21	92	106	91	77	+1.87
New Mexico	1.91	76	81	75	66	−10.27
Pacific						
California	0.98	111	122	91	126	+3.05
Oregon	0.88	98	90	111	69	−5.05
Washington	1.10	118	105	74	89	−4.42
Alaska	1.44	154	143	104	36	−214.64
Hawaii	1.30	102	119	67	107	−10.03
Total U.S.	$1.00	100	100	100	100	−$1.92

and the revenues the states would be likely to get back are the disparities among the states. Some contribute more in taxes per capita than they receive in services, some, very much less.

If the ACIR's hypothetical turnback had been in effect in 1979, Montana would have been a big loser because the highway programs that would have been included in the scheme cost $35.25 per capita more than the 3-cent-a-gallon tax would have provided. California, Florida and New Jersey would have been winners, coming out ahead by $3.05, $2.91 and $1.34.

Similar kinds of disparities appear in the state-by-state collection of the other federal taxes suggested for turnbacks. Utah, where a large portion of the population neither smokes nor drinks, would come out on the short end if the alcohol and tobacco taxes were returned to their collection points. Nevada and New Hampshire would do very well.

Lawrence A. Kudlow (above) of OMB, who is a member of the Reagan Administration's working group on transfer of tax resources, doesn't sound excited about turning back tax resources to the states. John Shannon of the Advisory Commission on Intergovernmental Relations thinks the idea might someday turn into reality.

There is little regional pattern to the state-by-state disparities among individual taxes and spending programs, even though in the aggregate the Northeast and Midwest pay more in federal taxes than they get back in federal spending. *(See box, p. 1495.)*

More important to the development of a long-term policy is that the mismatch of taxes and spending is changing as population and industry move to rural areas and the Sunbelt. In fact, the over-all problem may be solving itself as income differences among the regions are reduced over time.

New York has always contributed more in taxes than it received in federal services because of high personal income in that state. But growing incomes in other parts of the country may be shifting that balance.

"If you asked New Yorkers 10 years ago, they might have been for a tu...back because they would have come out so far ahead," said Albert J. Davis, the ACIR analyst who compiled the commission's turnback figures. "Today, they might have to think again. And in the distant future, they may be better off taking the federal aid."

Mahlon Straszheim, a University of Maryland economist who prepared a report this year for Sen. Daniel Patrick Moynihan, D-N.Y., on New York's position in the flow of federal funds, doesn't completely agree. "New York is on the short end of the stick now and it will still be on the short end of the stick 10 years from now," he said.

The interstate disparities could be reduced or even eliminated with the simple addition of an equalization formula attached to a federal tax credit. That was part of the unsuccessful Eisenhower proposal to turn back vocational education and municipal waste treatment programs, along with revenue from the telephone tax.

But equalization would violate one of the chief underpinnings for transferring tax resources to the states: to make those who spend public money directly accountable to the taxpayers from whom they raise it.

"That's a consistent theme of this Administration," said Williamson, "accountability in the marketplace and in politics. As you separate the decisions on spending and raising money, you get less good decisions, and the body politic suffers."

But there is another side. "Philosophical justifications come and go," said Bernard Weinstein of the University of Dallas, an expert in regional economics and a Sunbelt advocate. "Ten years ago, they said the federal government is better at raising money and the states and localities at spending it. I would still argue that, but now the buzzword is accountability, and some people are arguing that is more important."

To proponents of equalization, the federal government has a greater obligation to compensate for imbalances of wealth. "Revenue turnbacks, when we're ready for them, should not ignore ability to pay," Vermont Gov. Richard A. Snelling, the new chairman of the National Governors' Association, said in an interview at the association meeting.

"The federal government has a legitimate role to redress adverse effects of income distribution, and assure that all members of the population are offered the basics of life," added Jack A. Meyer, director of the center for health policy research at the American Enterprise Institute for Public Policy Research. "Those problems are national, and the federal government should have a role," he said.

Williamson disagrees with the premise. "Certain states are rich in natural resources, but other states have other advantages," he said. "And some states like New York brought their troubles upon themselves."

Some disparities resulting from energy resources might be taken into account in developing the turnback policy, Williamson said. "But healthy competition among the states—I don't think that's necessarily bad. Some diversity—which is not always inequity—exists and is going to have to be accepted."

FEDERAL ROLE

Intergovernmental scholars are urging the President to define carefully the roles of national, state and local government in the federal system before preparing a policy for turning revenue sources over to the states.

Reagan hinted at one definition in his speech to the state legislators in Atlanta: "There are legitimate and very important functions of the federal government, of course—the maintaining of national security for one. For another, the protection

of the constitutional rights of even the least individual among us."

Others see very practical reasons, based on economy of scale, for a federal role in a variety of activities. "The federal government is still the most effective collection agency whether you redistribute the money or not," said Talley of the county organization.

And for at least the next few years, argue some critics of an immediate reshuffling of responsibilities, the federal government will have most of the expertise required to run programs.

"Over the next six years, state and local government should have the opportunity to adjust," said Weinstein. "But if turnbacks did happen overnight, most states and localities wouldn't know what to do—they don't have the administrative experience and competence to handle a lot of these responsibilities."

That might be true in the South and West, but the Northeast-Midwest Congressional Coalition argues that it is not the case in its regions. "The irony is that the industrialized states are probably the best able to perform the services," said Shelley Amdur of the coalition staff. "Many of them have the delivery system in place, but they don't have the same capacity to raise taxes."

And then there's the question of where local governments would fit in. Federal tax sources would be returned to the states, not the localities, because the states have the constitutional prerogative to determine revenue sources within their boundaries. The states could broaden the revenue-raising abilities of their localities, or they could pass on new funds through state aid programs.

Or they could do nothing.

That's what worries some local officials. Reagan's block grant proposals reopened hostilities between groups of state and local officials that had been quiet for a decade.

But since the budget fights of June and July, state and local officials have tried to get together to present a more united front. Thus, local lobbyists are muting their criticisms of the states.

"It's no longer appropriate to be in an adversary role, particularly in this fiscal environment," said Talley. "Regardless of how you look at it, all local governments are creatures of their states."

POLITICS

Together or apart, the state and local lobby groups are bound to play an important role in the politics of any tax turnback proposals the Administration might develop. Because the notion remains so vague, the various interests have very different perceptions of what a turnback would mean for them.

Rich Williamson (above), President Reagan's assistant for intergovernmental affairs, and Edwin J. Gray, head of the Administration's tax transfer working group, have become quite enthusiastic about the prospect of turning back revenue resources from the federal government to the states.

The Governors' Association seems to like the idea. At least some governors believe turnbacks would provide new revenues to help pay for some of the responsibilities shifted to the states as a result of federal budget cuts.

If fact, the governors would go further. They want the federal government to assume total responsibility for welfare and other income maintenance programs—which would free considerable state revenue sources—and the states to take responsibility for education, law enforcement and transportation. Reagan is not interested in that swap, however, he wants to turn welfare over to the states, along with a transfer of revenue-raising authority.

Others view the turnback idea as a further strategy for simply reducing federal spending. "If you're going to cut services, you don't need those revenues," said Nonna A. Noto, a government finance economist with the Congressional Research Service. "That's their bottom line."

In addition to the White House staff, a subcommittee of the President's Advisory Committee on Federalism is dealing exclusively with tax turnbacks. The committee, chaired by Sen. Paul Laxalt, R-Nev., is to propose a fundamental reordering of the American system of federalism. *(See NJ, 5/2/81, p. 785.)*

The real bottom line will be determined by Congress, which has yet to bring up the concept in any forum. Hearings are scheduled for October by the Senate Governmental Affairs Subcommittee on Intergovernmental Relations. The House Ways and Means Committee, however, would have to originate any tax turnback legislation, and the Finance Committee would have jurisdiction in the Senate.

"Politically, I can't see how they could think of going to Congress to ask for tax turnbacks at a time of increasing deficits, when they've just cut the budget and taxes," said Claude E. Barfield, a visiting fellow at the American Enterprise Institute. "Economics aside, it's going to be a very difficult thing to do politically."

Others see a minefield in the interstate disparity question. "No matter what the Administration comes up with, by the time Congress gets finished wheeling and dealing with the disparities and equalization issue, it will all be compromised away," said a congressional staff member who asked not to be named.

Shannon believes Congress would adopt some form of equalization. But in the aftermath of the budget and tax cut episodes, no one is taking bets on what Congress will do.

"Reagan is going to be under pressure to do something positive," said Barfield. "You just can't take things away from people for a whole Administration."

"Turnbacks are probably a good strategy," added Talley. "If nothing else, Reagan can use them as a marketing tool, saying, 'I stuck you with a knife but I'm not going to turn it. In fact, I have a bandage for you.'"